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BUSINESS+ — A NEW, SUSTAINABLE AND INNOVATIVE PRIVATE SECTOR

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United Nations Development Programme



BUSINESS⁺

INCLUSIVE BUSINESS: A NEW, SUSTAINABLE AND INNOVATIVE PRIVATE SECTOR

Reviewers Copy



*Empowered lives.
Resilient nations.*

BUSINESS⁺ — A NEW, SUSTAINABLE AND INNOVATIVE PRIVATE SECTOR

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It is clear that an active engagement of the private sector is critical for the achievement of the internationally agreed Sustainable Development Goals (SDGs).

Through its core business activities and inclusive market practices, the private sector can play a pivotal role in ensuring sustainable development and contributing to job creation, growth and better access to products and services for poor populations.

Since its establishment, the Istanbul International Center for Private Sector in Development (IICPSD) has been UNDP's global hub for all efforts pertaining to private-sector engagement in poverty alleviation, serving to identify policies and business models and helping to promote market-based solutions through research, advisory services and capacity development.

The present report focuses on inclusive business. Through inclusive business models, poor people gain access to affordable goods and services such as education, health care and sanitation as well as better livelihood opportunities by participating in the market as consumers, employees, suppliers and entrepreneurs. Such models not only satisfy their basic needs but also empower them individually and commercially.

Innovative inclusive business models also benefit companies. By leveraging their technology and knowledge, they can generate profits, develop new markets, fuel innovation and enhance productivity. Although they may face numerous challenges, many companies strategically collaborate with non-traditional partners, including non-profit and governmental organizations, to achieve financial and social impact.

The report presents the results of four stages of research to determine the current level of knowledge, engagement and awareness of inclusive business of the Turkish private sector, and to identify the common characteristics and key drivers of successful initiatives. Thus it attempts to guide key stakeholders — businesses, government, communities, NGOs — to devise action plans to promote and support the development of inclusive business models towards poverty alleviation and human development.

We hope to capture business leaders' attention and imagination through this report and want to convince them to prioritize making their core business more inclusive. We also hope to further policymakers' commitment for advancing inclusive businesses. Together, it is utterly possible to make an innovative and sustainable change. Why not give it a chance?

Marcos Athias Neto

Director
Istanbul International Center for Private Sector in Development
United Nations Development Programme





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ABBREVIATIONS AND ACRONYMS

BOP	Base of the pyramid
CSR	Corporate social responsibility
G20	The Group of Twenty
GIM	Growing Inclusive Markets
ICT	Information and communication technologies
IFC	International Finance Corporation
IICPSD	Istanbul International Center for Private Sector in Development
NGO	Non-governmental organization
SDG	Sustainable Development Goal
SME	Small and medium-sized enterprise
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WBCSD	World Business Council for Sustainable Development



The 2030 Agenda for Sustainable Development adopted by the General Assembly of the United Nations features 17 goals, referred to as the Sustainable Development Goals (SDGs), covering a wide variety of economic, social and environmental challenges. The UN recognizes that to achieve the SDGs, we need stronger partnerships and possibly new partnership models.

The private sector has become an important partner with great potential to collaborate to achieve the SDGs. While there are different ways in which the private sector can be involved, this report focuses on inclusive business models. The G20 (2015) defines inclusive business as “a private sector approach to providing goods, services, and livelihoods **on a commercially viable basis**, either at scale or scalable, to people living at the base of the economic pyramid (BOP) **making them part of the value chain of companies’ core business** as suppliers, distributors, retailers, or customers”.

Inclusive business models are considered more sustainable than other forms of private-sector involvement because they envision development goals as part of a core (vs. peripheral) business strategy. Also, governments now perceive inclusive business as a promising solution to the challenges of development.

Though the number of inclusive businesses has risen substantially over the last decade, it is still far from the desired level. Furthermore, most of the existing inclusive businesses still fail to achieve scale. To discover why, the Istanbul International Center for Private Sector in Development (IICPSD) posed two research questions:

1. What do successful initiatives that reach their full potential in terms of scale and impact have in common?
2. What is the private sector’s current level of knowledge, engagement and awareness of inclusive business?

This report presents findings from four stages of research: a comprehensive review of literature and an analysis of 150 successful cases around the world to answer the first research question; in-depth interviews with 10 top business executives and a survey of 680 companies in Turkey to answer the second.

What makes inclusive businesses successful?

Overall, there are three main factors that help inclusive businesses reach commercial success, social impact and sustainability:

- ◆ The business model: How inclusive the core operations of the business are.
- ◆ Partnerships: To what extent initiatives collaborate with other stakeholders.
- ◆ Innovation: How innovative the business is.

This highlights the importance of developing an **innovative business model based on collaborations** with related parties to incorporate poor people into a company’s core business.

Currently, poor people are mostly incorporated into the value chain as consumers. We suggest that the focus could shift to incorporating poor people into the value chain through operations, to ensure wealth creation at the BOP. This can only be possible by also involving poor people in the market system as producers or employees.



EXECUTIVE SUMMARY

Networks of relationships emerged as a source of competitive advantage, with the accumulated effect created through the resources and capabilities of the whole network being greater than when one company operates alone. Thus, creating a conducive environment for collaboration among different stakeholders and establishing frameworks that bring together business and supporting actors will expand dialogue and create actionable partnerships.

Innovation emerges as another key factor for successful inclusive businesses. Inclusive businesses that demonstrate innovation when targeting a market for the first time achieve success and sustainability in their operations. Over half of the successful inclusive businesses tapped into markets with new products or services, rather than entering the market with existing products or services.



UN Photo/Martine Perret ©



The private sector's current level of knowledge, engagement and awareness of inclusive business — A pilot study in Turkey

Companies in Turkey have very low levels of engagement in inclusive business models and activities. Those companies that are engaged in inclusive business mainly interact with the BOP by employing poor people.

There is almost no cooperation between inclusive businesses in Turkey and non-governmental organizations (NGOs) or governmental institutions. Collaboration between all stakeholders, including the government, development agents, universities and NGOs, is needed to increase levels of awareness among companies and to support inclusive business practices.

How to raise the level of awareness of and engagement with inclusive business

Companies need to put inclusiveness at their centre from the very outset, and reflect this as a priority in every stage of the value chain; ensure commitment from senior management; invest in and include the BOP in the value chain, and measure and communicate the impact; be innovative, especially when cooperating; and make long-term projections for returns when targeting the BOP.

Governments need to take an active role; promote transparency and accountability; support innovation and entrepreneurship; encourage the private sector to invest in human capital through inclusive businesses; create external financing facilities; and develop certification for inclusive value chains.

Collaboration is a must to ensure success. Inclusive business requires high levels of collaboration between different development actors for greater social impact and the sustainability of these business models. Joint efforts are needed from the government, development agents, universities and NGOs.

Policy implications

Managers' current low levels of interest in inclusive business would increase if they had a better understanding of how inclusive business approaches might help them grow their business. Therefore, based on our findings, we recommend the development of:

- ◆ national strategies on inclusive business that incorporate a strong focus on fostering innovation;
- ◆ nationwide awareness-raising campaigns (particularly targeting SMEs and entrepreneurs); and
- ◆ social performance indicators for companies to increase awareness and generate interest and engagement.





2015 will be remembered as a landmark year for the development community. The adoption of the Addis Ababa Action Agenda on Financing for Development and the Sustainable Development Goals (SDGs) has paved the way for a comprehensive and transformative agenda —known as **the 2030 Agenda for Sustainable Development**— to guide the development community for the next 15 years. With 17 SDGs that cover a wide variety of economic, social and environmental challenges, the agenda has been both applauded and dismissed as too ambitious. Whether the goals are too ambitious to be reached or ambitious enough to unite nations to work for the common good of all humanity, making progress on the SDGs as a community would bring about a peaceful and prosperous world, which we all aspire to live in together.

But how is it going to happen? The UNCTAD 'World Investment Report 2014' estimates that the needs for financing the SDGs will range from USD\$5 trillion to USD\$7 trillion per year at the global level, which leaves an annual shortfall of around US\$2.5 trillion in developing countries alone.¹ This massive gap demonstrates the need for active involvement and investment from all stakeholders besides governments, including the private sector.

This is not to say that the private sector should mobilize its financial resources to fill this gap. Rather, this gap is a significant opportunity for the private sector. Investments are required in fast-growing markets in the developing world, not in already saturated, slowly growing markets in the developed world. Firms can get higher investment returns once they broaden their operational outlook to include developing markets. A new approach to doing business would make this happen — one that is innovative, sustainable and inclusive.

Inclusive business, defined by the G20 as “a private sector approach to providing goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the economic pyramid (BOP)² making them part of the value chain of companies’ core business as suppliers, distributors, retailers, or customers”, is one example of where private capital and innovation meet sustainable development in a business-oriented setting. By including previously excluded poor and vulnerable populations in its core activities, inclusive business creates value for both the enterprises and excluded populations involved. It lets enterprises establish new consumer bases, innovate new goods, services and operations, have access to a more qualified labour force and improve the quality of their supply and delivery chains. It enables poor or vulnerable populations by expanding their access to goods, services and income-generating opportunities.

Inclusive business goes beyond the way of business thinking that has been dominant up to now: that companies could deliver their social responsibilities through corporate philanthropy or isolated corporate social responsibility (CSR) programmes. Moreover, these remodelled businesses are commercial activities; therefore, they also generate a direct return on investment back to the business ventures — unlike corporate philanthropic activities.

This report is an attempt to guide key stakeholders — enterprises, government, communities, the development sector — to devise action plans to promote and support inclusive business. First, it presents an analysis of successful inclusive business cases around the world. Second, by drawing conclusions from a pilot study with Turkish companies, it defines to what extent the private sector currently engages with inclusive business operations.

¹ UNCTAD, 'World Investment Report 2014', UNCTAD, Geneva, 2014.

² Base of the Economic Pyramid (BOP) is used to describe men and women with a low income or who lack access to basic goods and services. The low-income segment is commonly considered to include people earning up to US\$8/day in purchasing power parity (PPP) terms. Setting the maximum in PPP terms adjusts the real figure to equate to the relative purchasing powers among different countries.



INTRODUCTION

Background

The research

Though the number of inclusive businesses has risen substantially over the last decade, it is still far from the desired level. Furthermore, most of the existing inclusive businesses still fail to achieve scale. To discover why, the Istanbul International Center for Private Sector in Development (IICPSD) posed two research questions:

1. What do successful initiatives that reach their full potential in terms of scale and impact have in common?
2. What is the private sector's current level of knowledge, engagement and awareness of inclusive business?

To address these questions, development practitioners from IICPSD worked with academics from Koç University School of Business to develop a multi-year study on the private sector's role in development, with a specific focus on inclusive business models. The research aimed to understand the potential areas of intervention to accelerate the shift towards inclusive business at both company and government level, in global, regional and national terms. The present report is the result of four stages of research (a literature review, a case analysis, in-depth interviews and a survey) distilled for the use of the business community and decision-makers.

Why inclusive business?

We focus on inclusive business for two major reasons. First, inclusive business models are considered more sustainable than other forms of involvement by the private sector because these models envision development goals as part of a core (vs. peripheral) business strategy and are financially self-sustainable. Second, governments now perceive inclusive business as a promising solution to the challenges of development. For the last couple of years, inclusive business has been a key item on the agenda of the G20 — which comprises a mix of the world's largest advanced and emerging economies, representing about two thirds of the world's population, 85 percent of global gross domestic product (GDP) and over 75 percent of global trade — and G20 leaders have recently admitted that inclusive business has a particularly important role to play in sustainable development.³

Nearly all (98 percent) of the 150 inclusive business cases investigated in the research are still operating and sustaining their operations. This might suggest that companies that incorporate people at the BOP into their core value chain **as part of their core business** are likely to operate for longer than companies that include people at the BOP in the value chain through activities **which are ancillary** to the company's core business.



³ G20 Leaders, 'Call to Action on Inclusive Business', G20, Ankara, 2015.

See <http://www.worldbank.org/en/news/press-release/2015/11/17/g20-leaders-call-to-action-on-inclusive-business>.



Methodology

Four stages of research were conducted through primary and secondary data collection:

Literature review: We extensively reviewed the literature on the role of the private sector in human development since the term was coined by UNDP in its first Human Development Report in 1990. The team scanned 1319 articles published in highly respected journals indexed in the Social Sciences Citation Index and grey literature reports published by development agents including UNDP, Ashoka, the World Bank, the International Finance Corporation (IFC) and Endeavor. Only 24 of the articles directly concerned inclusive business, while 100 were about the nature and characteristics of the BOP. The relative novelty of the concept of inclusive business, which was coined by the World Business Council for Sustainable Development (WBCSD) in 2005, explains the scarcity of its academic coverage in peer-reviewed journals. Most of the information found, therefore, came from published or unpublished documents from development organizations, research institutes, think tanks and governmental organizations.

Case analysis: We looked at 150 business cases gathered from the databases of the UNDP Growing Inclusive Markets (GIM) initiative and the IFC, as well as inclusive business cases from the reports of other organizations such as the WBCSD, Harvard Business School and Endeavor. Then we developed an analytical framework based on the literature review to examine the cases. Two independent coders evaluated the cases according to the criteria set in our framework. Discrepancies between the two coders' analyses were solved through discussion between them.

In-depth interviews: We conducted semi-structured in-depth interviews with managers or owners of 10 companies operating in Turkey. These companies include small and medium-sized enterprises (SMEs), large national companies and multinational corporations from the production and services sectors with varying degrees of involvement in development efforts (ranging from adopting inclusive business to having no experience of CSR or other ancillary activities). The interviews told us about current practices of Turkish companies on inclusive business, and helped us to identify the key variables to use in our survey.

Survey: We developed a comprehensive survey questionnaire with 41 substantive and 10 demographic questions to understand the private sector's role in development, and the current level of companies' awareness, knowledge and experience of inclusive business models. The questionnaire consisted of seven-point Likert-scale questions, open- and semi-open-ended and multiple-choice questions. A link to a self-administered online survey was sent by email to senior executives of 680 companies from 42 different sectors, including SMEs, large national companies, multinational companies and social enterprises, and with a representative sample by industry and company size. Through a comprehensive list of companies operating mostly in the Marmara region, we reached members of the Istanbul Chamber of Commerce and companies with a previous corporate relationship with Koç University.

After follow-up calls, 96 surveys were completed — a response rate of approximately 14 percent. Just under half (46 percent) of these companies operate solely in Turkey, while 54 percent also have operations outside Turkey.



A man with a beard, wearing a blue work shirt, is focused on working on a mechanical device. The device has copper pipes and a cylindrical component. In the background, there is a gas cylinder and various workshop tools and equipment. The scene is lit with warm, industrial lights.

Chapter I

WHAT MAKES INCLUSIVE BUSINESSES SUCCESSFUL?

- ◆ The three main factors that help inclusive businesses reach commercial success, social impact and sustainability are their business model, partnerships and innovation.
- ◆ Most of the successful inclusive business cases use inclusive business models, incorporating the BOP into their core value chain as part of their core business operations and relying on market returns for commercial viability.





How can we support inclusive business models to reach their full potential in terms of scale and impact? Do successful inclusive businesses have common characteristics that can be leveraged? How do they differ from each other? These were the preliminary questions we asked before we built our analytical framework to examine 150 successful inclusive business cases to identify key characteristics of the company or the initiative, their business models, and contextual factors which may play a role in their success.

Despite their regional and sector-based representativeness, these 150 cases are all successful applications of inclusive business (in terms of profitability and scale-up at the time of investigation), as the extensive literature lacks cases about failed attempts at inclusive business. Consequently, the results of our analysis can be generalized to all successful cases. We suggest that future research should investigate failed attempts as well as successful applications, as we believe that we can use unsuccessful cases to identify company-related and contextual challenges for the sustainability of inclusive businesses.

The big picture

To see the big picture, we classified the inclusive businesses by using the G20 Inclusive Business Framework (2015), which suggests three approaches for engaging in inclusive business: inclusive business models, inclusive business activities and social enterprise initiatives.

In **inclusive business models**, companies incorporate the BOP into their core value chain as part of their core business operations and rely on market returns for commercial viability and financial self-sustainability.

On the other hand, in **inclusive business activities**, companies include people at the BOP in the value chain through activities which are ancillary to the company's core business and typically commercially funded.

Finally, **social enterprise initiatives** pursue social objectives and are not oriented towards profit maximization or financial self-sustainability.⁴

Table 1. Inclusive business approaches

	INCLUSIVE BUSINESS MODELS	INCLUSIVE BUSINESS ACTIVITIES	SOCIAL ENTERPRISE INITIATIVES
BOP's Relationship to Business	Core Value Chain	Ancillary	Ancillary or Core Value Chain
Financial Return Expectations	Market Returns	Market Returns or Below Market Returns	Not Profit Maximizing
Primary Funding Type	Commercial	Commercial	Mixed

⁴ G20 Development Working Group, 'Annexes to G20 Inclusive Business Framework', G20 Development Working Group, 2015.



WHAT MAKES INCLUSIVE BUSINESSES SUCCESSFUL?

Table 2. The categories established for the case analysis (see Appendix I for detailed explanations)

Category	Unit of Analysis	Explanation
Success factors	<ul style="list-style-type: none">• Pull factor (high demand for the product or service)• Partnerships• Business model• Local support• State support• Innovativeness• Availability of funds• Entrepreneurial skills• Low cost structure	The most important factor behind the success of the initiative
Types of engagement for inclusive business	<ul style="list-style-type: none">• Inclusive business model• Inclusive business activity• Social enterprise	<p>Companies incorporate the BOP into their core value chain as part of their core business operations and rely on market returns for commercial viability and financial self-sustainability.</p> <p>Companies include people at the BOP in the value chain through activities which are ancillary to the company's core business and typically commercially funded.</p> <p>These initiatives pursue social objectives and are not oriented towards profit maximization or financial self-sustainability.</p>
Type of organization	<ul style="list-style-type: none">• Large national company• Local SME• Multinational corporation• Social enterprise	Classification of companies by the location of the company and the number of staff employed

WHAT MAKES INCLUSIVE BUSINESSES SUCCESSFUL?



Category	Unit of Analysis	Explanation
Sustainability	<ul style="list-style-type: none"> • Yes • No 	Whether the business is still operating
Number of years in operation	<ul style="list-style-type: none"> • Numeric 	How old the initiative is
Value chain operations	<ul style="list-style-type: none"> • Inbound logistics • Operations • Outbound logistics • Marketing and sales • Service purchasing • Human resources management • Technology • Infrastructure 	The core domain of operations for the initiative
Role of poor people	<ul style="list-style-type: none"> • Consumer • Producer • Employee • Labour • Entrepreneur 	The entry point of poor people into the value chain
Strategy	<ul style="list-style-type: none"> • Resource-based view • Network theory 	<p>Application of a bundle of valuable tangible or intangible resources at the firm's disposal to transform a short-term competitive advantage into a sustained competitive advantage</p> <p>The source of competitive advantage is a network of relationships; firms with best/optimal relationship portfolios will survive.</p>



WHAT MAKES INCLUSIVE BUSINESSES SUCCESSFUL?

Category	Unit of Analysis	Explanation
Factors for growth	<ul style="list-style-type: none">• Business model adjustments• Business environment• Operational partnerships• Market or supplier development• Funding partnerships	<p>Whether the main contributing factor for scale-up is:</p> <p>a change in the business model</p> <p>the supporting business environment</p> <p>the strength and impact of partnerships</p> <p>the new market opportunities, and extending supplier networks through new suppliers</p> <p>the availability of funds created through partnerships</p>
Innovativeness	<ul style="list-style-type: none">• Innovative products/services• Modified versions of existing products/services• Existing products/services	<p>Whether the initiative serves innovative products/services, modified versions of existing products/services or existing products/services</p>
Value proposition	<ul style="list-style-type: none">• Newness• Performance• Customization• Design• Price• Risk reduction	<p>Whether the core value created by the initiative is:</p> <p>innovative solutions</p> <p>improving the performance of a product or service</p> <p>adapting the product/service to meet customers' needs</p> <p>offering a distinctive design of products/services</p> <p>a low price or fair price for improved performance</p> <p>reducing risks in the lives of people with a low income</p>



Category	Unit of Analysis	Explanation
Value proposition	<ul style="list-style-type: none"> • Accessibility • Convenience/usability 	<p>increasing poor people's access to goods/services</p> <p>making products and services easy to use</p>
Challenges	<ul style="list-style-type: none"> • Poor infrastructure • Political, regulatory or economic uncertainties • Corruption • Financial challenges • Lack of partnership opportunities • Lack of governmental support • Lack of institutional support (NGOs, local managers etc.) • Challenges related to local community (illiteracy, hostility, low skills etc.) 	<p>Major challenges faced during and after the implementation of inclusive business</p>



WHAT MAKES INCLUSIVE BUSINESSES SUCCESSFUL?

Critical success factors

Overall, there are three main factors that help inclusive businesses reach commercial success, social impact and sustainability:

- 1 The business model:** How inclusive the core operations of the business are
- 2 Partnerships:** To what extent initiatives collaborate with other stakeholders
- 3 Innovation:** How innovative the business is

The **business model** emerges as the most critical success factor (in 45 percent of cases), followed by **partnerships** (18 percent) and **innovation** (15 percent). This highlights the importance of developing an innovative business model based on collaborations with related parties to incorporate poor people into the core business of the company (see Inclusive Business Case 1 as an example).



Inclusive Business Case 1. Koraye Kurumba and Yeelen Kura

Koraye Kurumba and Yeelen Kura are two companies that operate in the energy sector in Mali. They collaborate with Dutch NUON and French TOTAL to provide energy to more than 40,000 people in 24 villages with small solar home systems and diesel generators.⁵

"In Mali, only 10% of the country's 12 million inhabitants have access to electricity. Access is even lower —just 2%-3%— in rural areas, where appliances are powered with car batteries and kerosene lamps. Candles are used for daily lighting. Koraye Kurumba and Yeelen Kura are two rural energy services companies operated in rural Mali by Électricité de France — in partnership with the Dutch energy company NUON and the French TOTAL, with support from the French Agency for the Environment and Energy Efficiency. Their low-cost electricity, based on solar home systems or small low-voltage village micronetworks supplied by diesel generators, made big development impacts. They enhanced standards of living. They also developed new income-generating activities. And they improved the quality of health care and education. Backed by a new institutional framework and international donors, the model —designed to ensure profitability, sustainability, scalability and local ownership— is to be expanded beyond the 24 villages and 40,000 people it serves today."

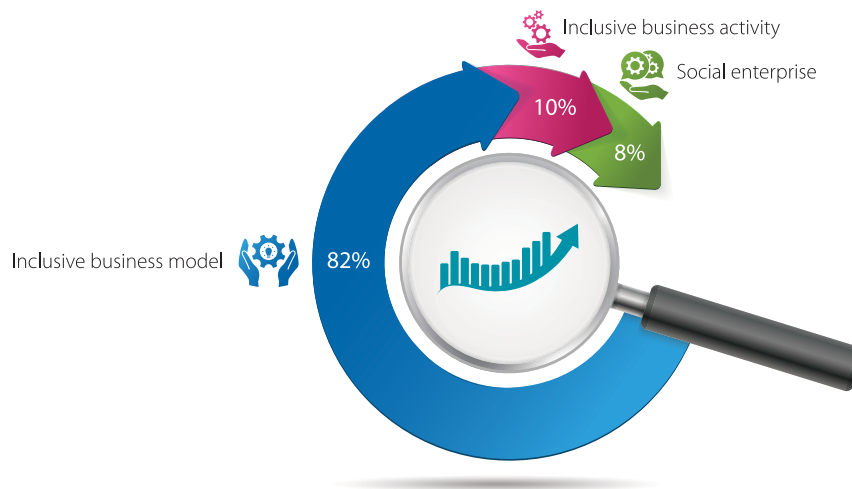
⁵ UNDP, 'GIM Global Report; Creating Value for All: Strategies for Doing Business with the Poor', UNDP, New York, 2008.



Business models help inclusive businesses succeed

Inclusive business models constituted 82 percent of the successful cases analysed, followed by inclusive business activities (10 percent) and social enterprises (8 percent).

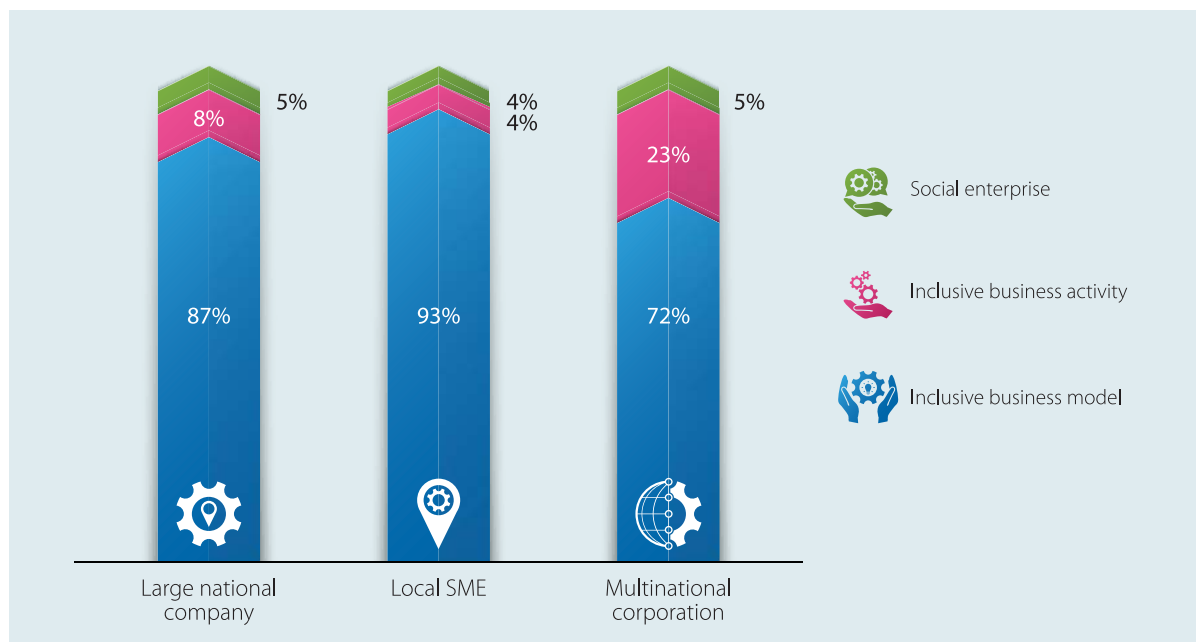
Figure 1. The three approaches for engaging in inclusive business



More than one third (38 percent) of the inclusive businesses are local SMEs, followed by multinational corporations (27 percent), large national companies (26 percent) and social enterprises (9 percent).

Looking at the approach to conducting inclusive business by company type reveals that multinational companies are more likely than large national companies or SMEs to conduct inclusive business activities.

Figure 2. Approach to conducting inclusive business by company type

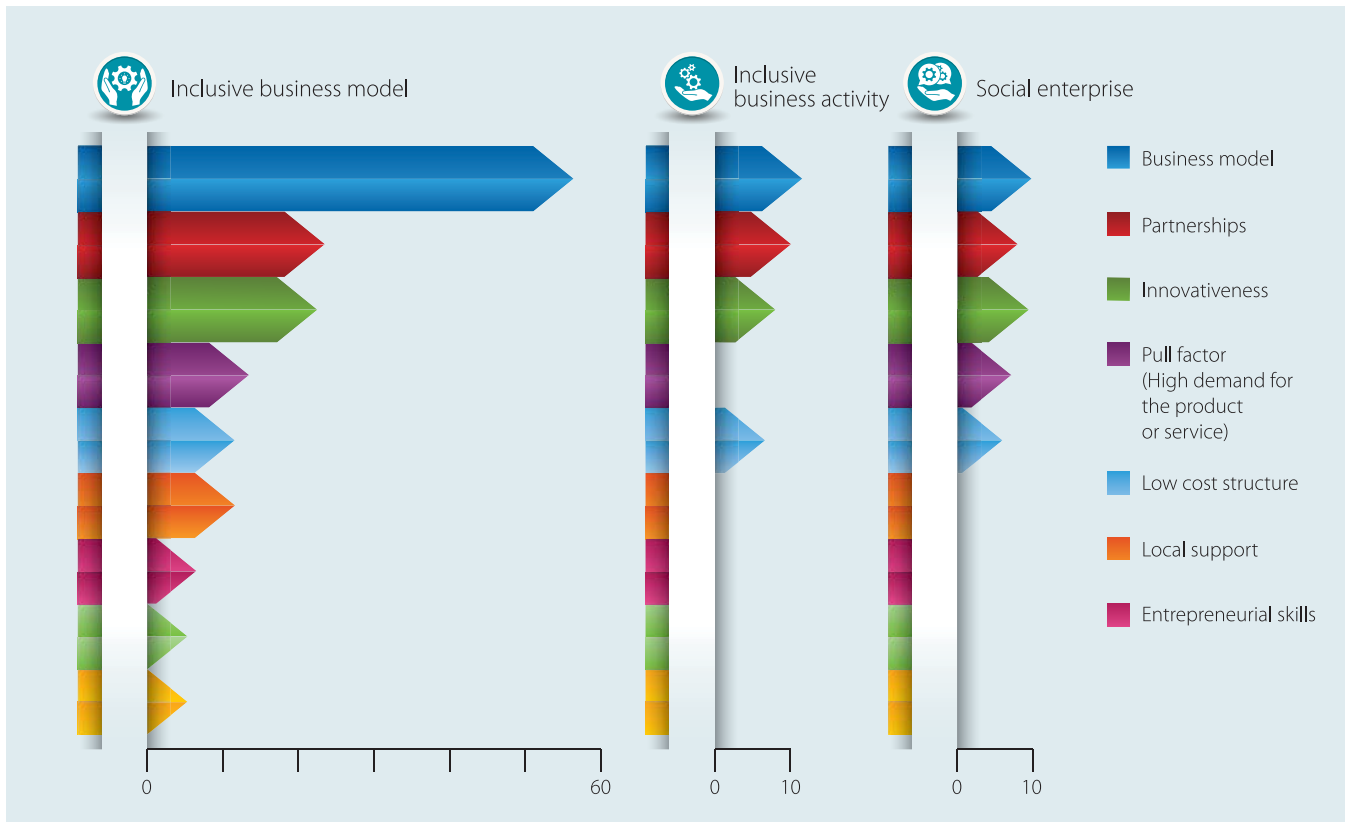




WHAT MAKES INCLUSIVE BUSINESSES SUCCESSFUL?

On the other hand, while business models emerge as the main critical success factor for local SMEs, multinational corporations and large national companies, partnerships are the main success factor for social enterprises (see Figure 2 in Appendix III).

Figure 3. Critical success factors for inclusive business



The core domain of operations in which most inclusive business took place was marketing and sales (44%). In these cases, poor people are mostly incorporated into the value chain as consumers, which creates social and business impact that is bound up with their current financial resources. We suggest that the focus could shift to incorporating poor people into the value chain through operations, rather than marketing and sales, to ensure wealth creation at the BOP. This can only be possible by also involving poor people in the market system as producers. The focus should be on creating fortunes *with* the BOP, as opposed to *at* the BOP (London and Hart, 2011).

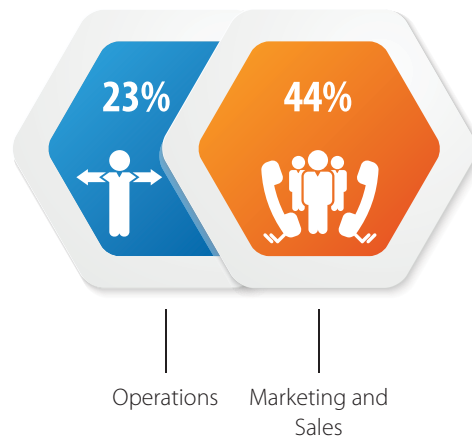




Figure 4. The role of poor people in inclusive businesses

The position of poor people in companies' value chain is a major determinant of success. More than a half of the successful business cases served poor people by selling to poor consumers, whereas 28 percent of the businesses strengthened their supply chain by buying from poor producers. To ensure sustainability in reaching intended business and social goals, there is a need for a shift in perspective to assign different roles to poor people in the value chain. Thus, there is room for businesses to immerse themselves in

the market (ibid.) and go beyond selling to poor people, by integrating them into the value chain as producers and increasing their engagement (Agnihotri, 2013; Shivarajan and Srinivasan, 2013).

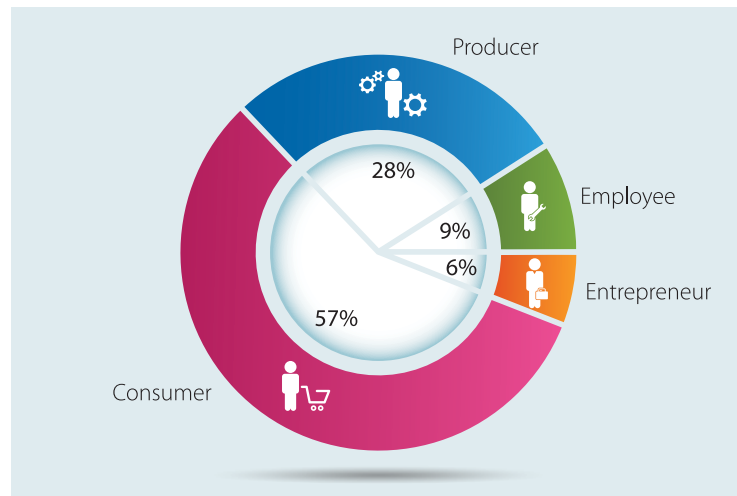
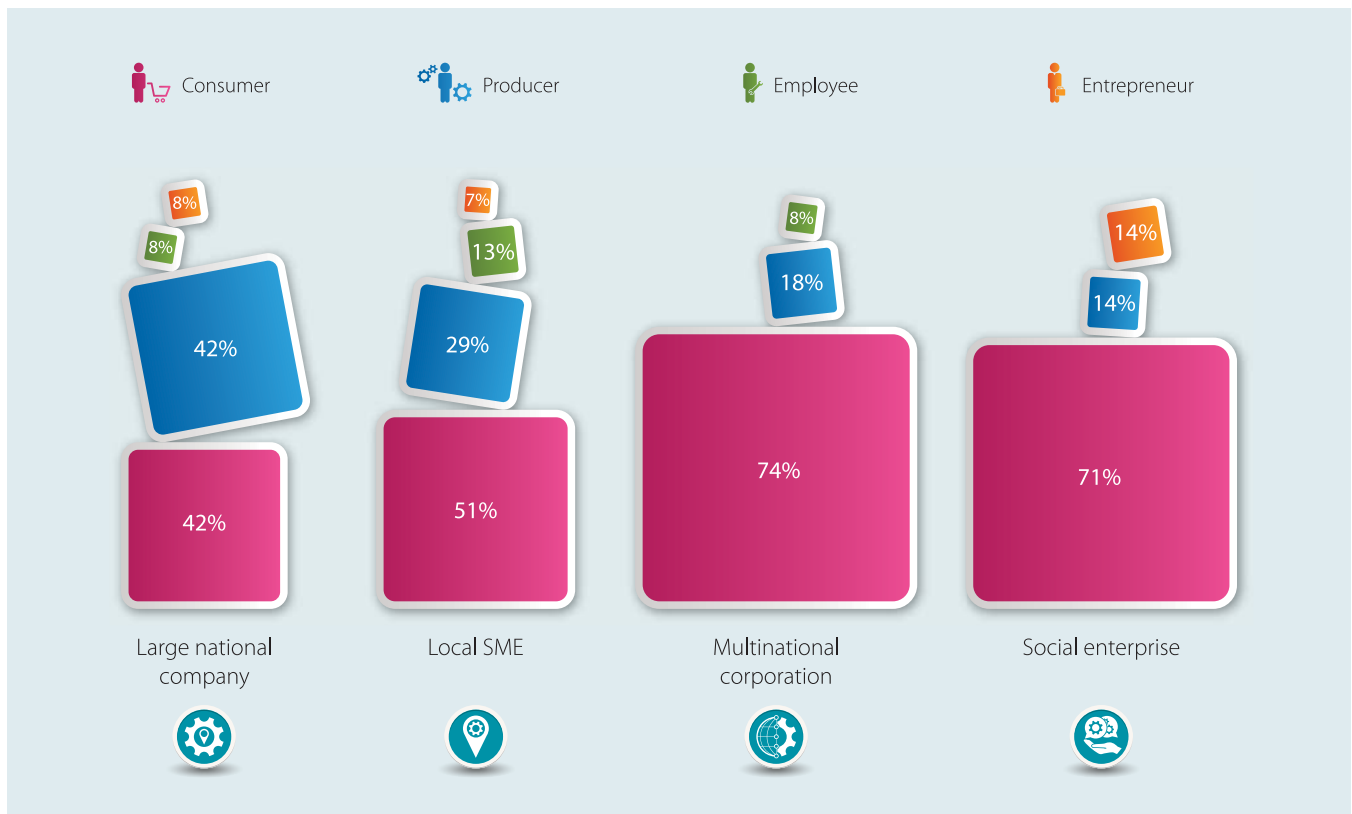


Figure 5. The role of poor people in inclusive businesses by company type



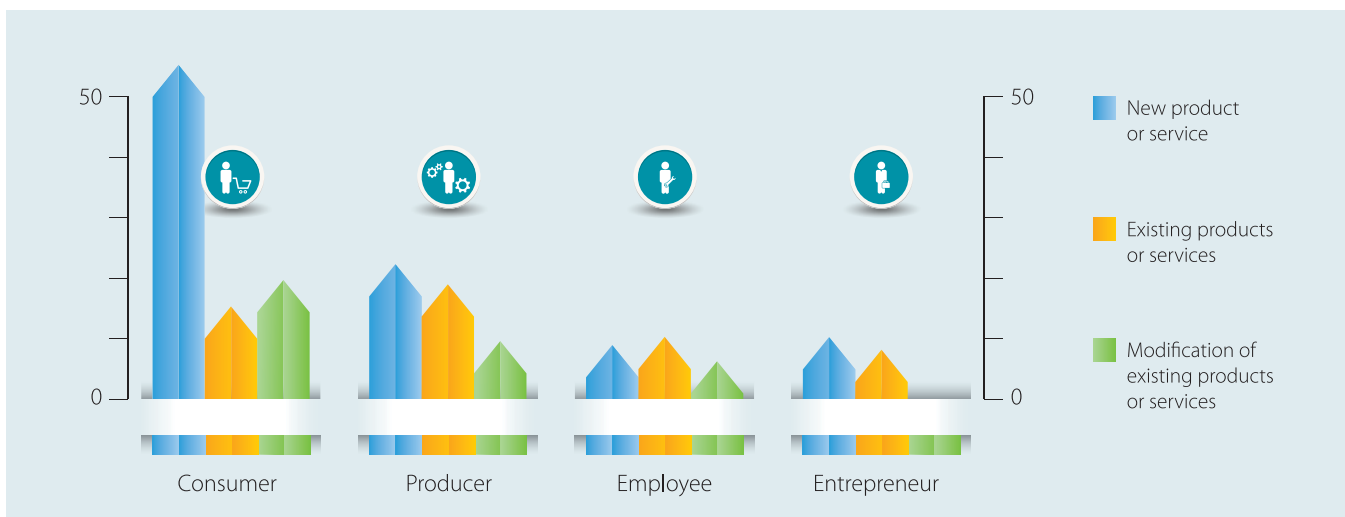


WHAT MAKES INCLUSIVE BUSINESSES SUCCESSFUL?

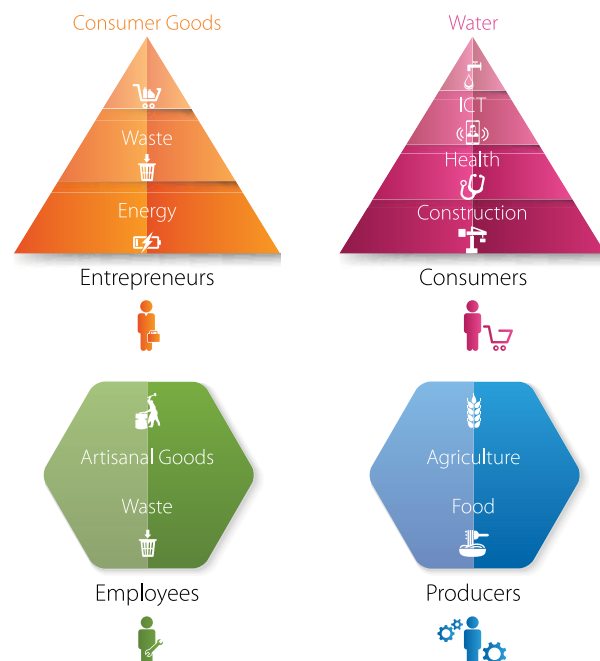
Looking at the different positions of poor people in the value chain reveals that large national companies are both buying from and selling to poor people, whereas three quarters of the multinational corporations and half of the local SMEs studied only sell to them.

The position of poor people in the value chain also varies according to the products and services companies provide. Poor people mostly take on the role of employees for the firms which serve their markets with existing products or services. They are mostly included in the business model as consumers for companies tapping into the markets with new products and services or slightly modified versions of their existing products.

Figure 6. The role of poor people in inclusive businesses by type of product or service

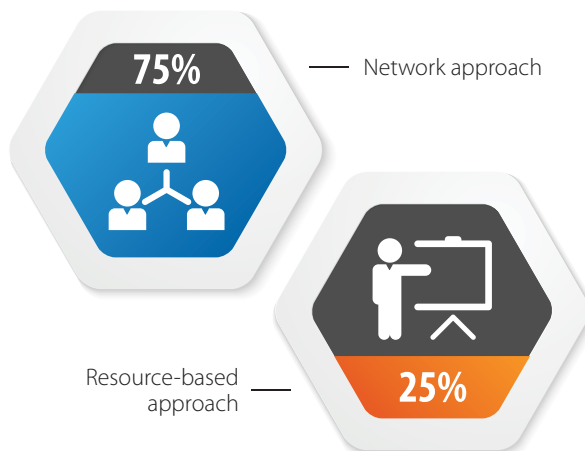


Poor people mostly take on the role of entrepreneurs in the consumer goods, waste and energy sectors; employees in the artisanal goods and waste sectors; producers in the agriculture and food sectors; and consumers in the water, information and communication technologies (ICT), health and construction sectors (affordable housing).





Partnerships help inclusive businesses succeed



Networks of relationships emerged as a source of competitive advantage, and the relationship portfolios that the firms established emerged as one source of success in business. Only a quarter of the successful businesses use a resource-based strategy. The vast usage of a network approach further stresses that collaboration helps inclusive businesses succeed. The accumulated effect created through the resources and capabilities of the whole network is greater than when one company operates alone, and increases the business and social impact of inclusive businesses.



Inclusive Business Case 2. Juan Valdez

Juan Valdez is a large national agriculture company in Colombia. Its model enables farmers to sell their coffee directly under a popular brand name.⁶

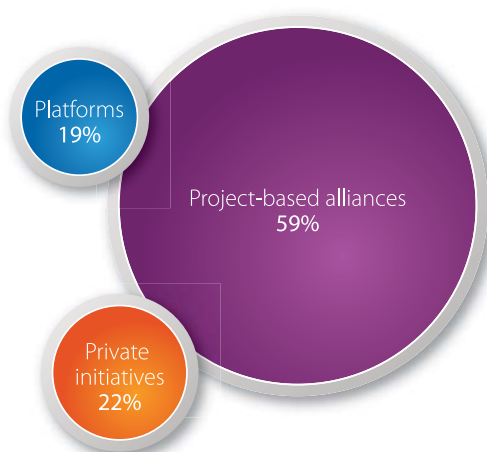
"Coffee is a way of life for more than 566,000 Colombian farmers associated with the National Federation of Coffee Growers of Colombia (NFC). About 95% of NFC coffee growers are small-scale, with coffee plantations of less than 5 hectares. An estimated 2 million Colombians depend directly on coffee production. For decades the coffee market has confronted crises from international price instability, with significant repercussions on the quality of life for small producers and their families. The Juan Valdez character—created in 1959 to position Colombian coffee globally, particularly in the United States—was relaunched in 2002 with the inauguration of the Juan Valdez Coffee Shops, part of an NFC initiative to increase coffee producers' profits by incorporating direct sales into its commercial model. In 2006, the company operated 57 coffee shops in Colombia, the United States and Spain, with sales reaching \$20 million."

⁶ UNDP, 'GIM Global Report; Creating Value for All: Strategies for Doing Business with the Poor', UNDP, New York, 2008.



WHAT MAKES INCLUSIVE BUSINESSES SUCCESSFUL?

Figure 7. Types of structures of inclusive businesses

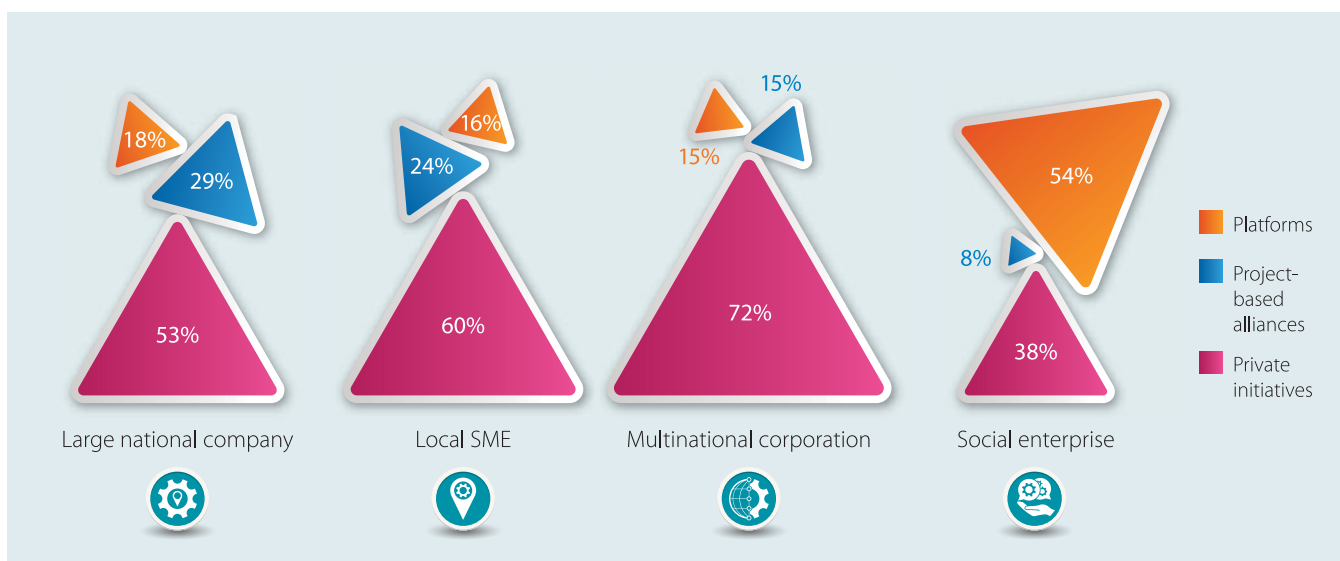


Firms seek to strengthen their inclusive businesses by using one of or a combination of three different structures (Gradl and Jenkins, 2011). A firm can rely on its own resources and capabilities to overcome coordination problems by keeping its structure as a **private initiative**. When firms rely critically on the resources and/or capabilities of other players and cannot simply purchase them on the market, they establish **project-based alliances** with one or more other organizations. **Platforms** are employed when only potentially large numbers of players acting collectively are capable of strengthening an inclusive business ecosystem. Platforms allow many different players to coordinate with each other. Platforms are long-term and relatively more sustainable structures than private

initiatives and project-based alliances, as they significantly reduce the time, effort and costs of overcoming constraints through the efficient use of resources and capabilities.

The majority (59 percent) of successful inclusive businesses engage in cooperation with other actors to harness resources and capabilities through project-based alliances. Thus, creating a conducive environment for collaboration among different stakeholders can bring about and scale up collaborative and lucrative business solutions to challenges faced by poor people today. Therefore, we recommend that governments and international development institutions should recognize and respond to the coordination gaps among stakeholders, and actively lead the establishment of frameworks that bring together business and supporting actors to expand dialogue and create actionable partnerships.

Figure 8. Structures of inclusive businesses by type of organization

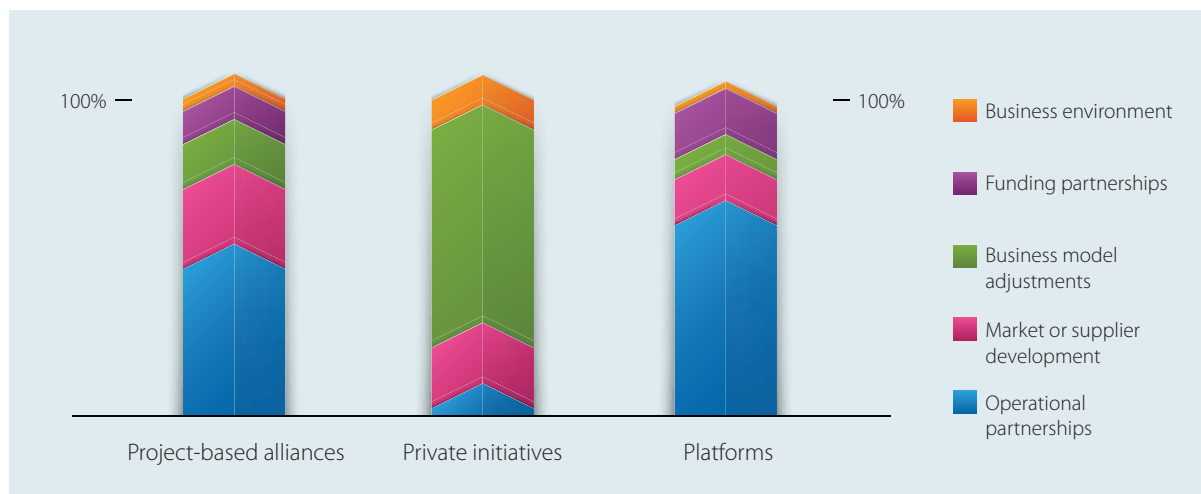




Looking at the structures of inclusive businesses by type of organization reveals that project-based alliances emerge as the main structure for inclusive businesses not only for small-scale firms but also for businesses that have operations in one or more countries. Almost three quarters of multinational corporations and more than a half of large national companies and local SMEs establish project-based alliances with other organizations to access critical resources and/or capabilities that they cannot simply purchase on the market.

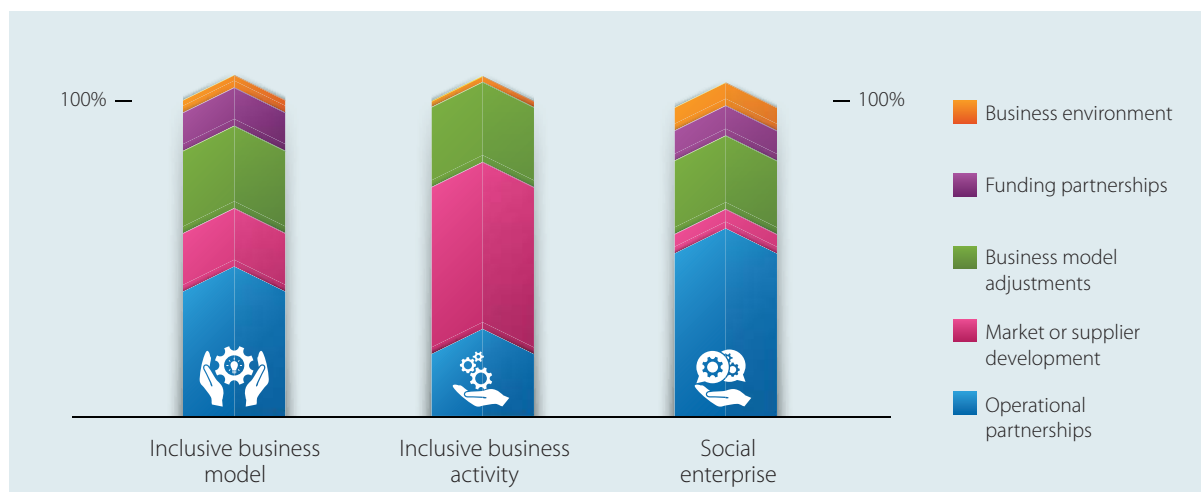
The major factors for the growth and scale-up of inclusive business are **operational partnerships** (45 percent of cases), **market or supplier development** (22 percent) and **business model adjustments** (22 percent).

Figure 9. Major factors for the growth and scale-up of inclusive businesses by structure



The main factor for growth for project-based alliances and platforms is operational partnerships, while business model adjustments emerge as the main factor for private initiatives.

Figure 10. Major factors for the growth and scale-up of inclusive business by business model



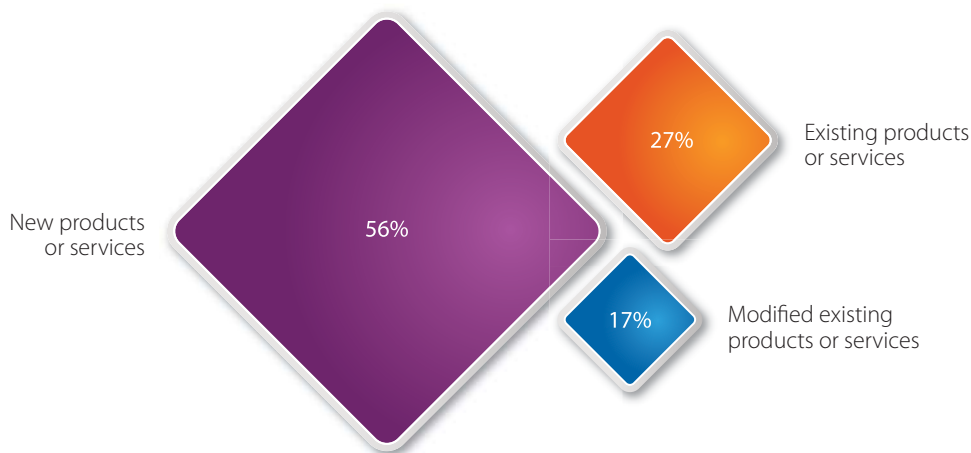


WHAT MAKES INCLUSIVE BUSINESSES SUCCESSFUL?

Again, operational partnerships emerge as the main factor for both inclusive business models and social enterprises, while the main factor for growth for inclusive business activities is market and supplier development. These findings suggest that collaborations and partnerships in the operational domain can help companies to scale up.

Innovation helps inclusive businesses succeed

Figure 11. Innovation in inclusive businesses



Innovation emerges as another key factor for inclusive businesses to succeed. Innovation especially matters when a company targets a market for the first time. Inclusive businesses that demonstrate innovation in the new market achieve success and sustainability in their operations. More than half (56 percent) of the **successful inclusive businesses tapped into markets with new products or services**, rather than entering the market with existing products or services.

Challenges

In all these successful inclusive business cases, companies face different company-related or contextual challenges to sustainability and scale-up. The three main challenges are **challenges related to the local community** (39 percent of cases), **financial challenges** (30 percent) and **political, regulatory or economic uncertainties** (15 percent).

The main challenges faced by local SMEs, multinational corporations and large national companies are related to the local community, followed by financial challenges. For social enterprises, financial challenges emerge as the main challenge (see Figure 1 in Appendix III). These findings signal the need for collaborations with financial institutions for inclusive business to overcome financial barriers.

Companies which were established more recently face challenges related to institutional support and partnership opportunities. This leads us to the policy implication that new inclusive businesses need support and opportunities to develop partnerships with non-governmental organizations (NGOs), institutions from both the private and public sectors and other development actors.



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Inclusive Business Case 3. Celtel and Celpay

Celtel is a multinational corporation providing 2 million people with information and communication technology in war-torn Democratic Republic of Congo. Its former subsidiary Celpay is providing financial services, replacing the absence of banking networks.⁷

“Celtel International -the leading pan-African mobile communications group, with operations in 15 countries- entered the Democratic Republic of Congo in 2000, when the civil war was still raging. It faced a market with widespread insecurity, poverty, depleted human capacity and political and regulatory uncertainty. There was little or no infrastructure and no banking network. The potential customer base seemed very small, with few ways to reach out to them. Despite those obstacles, Celtel has gained more than 2 million customers in the country, allowing communities previously isolated by war and poor infrastructure to exchange information. Celtel also established Celpay —previously part of Celtel and now owned by FirstRand Banking Group— as a mobile banking system to compensate for the lack of a national banking network.”

⁷ UNDP, ‘GIM Global Report; Creating Value for All: Strategies for Doing Business with the Poor’, UNDP, New York, 2008.



A photograph of a sewing workshop. Several women, wearing headscarves, are seated at long tables, each with a sewing machine. They are focused on their work. The room has large windows on the left, a red chalkboard on the wall, and a framed picture on the right. The text 'Chapter II' is overlaid on the right side of the image.

Chapter II

“DOES THE BOSS KNOW?”

- ◆ Companies in Turkey have very low levels of engagement in inclusive business models and activities. Those companies that are engaged in inclusive business mainly interact with the BOP by employing poor people.
- ◆ There is almost no cooperation between inclusive businesses in Turkey and NGOs or governmental institutions. Collaboration between all stakeholders, including the government, development agents, universities and NGOs, is needed to increase levels of awareness among companies and to support inclusive business practices.





The number of enterprises engaging in inclusive business has not yet reached desired levels. So we asked the companies: do you know what inclusive business is, and how do you engage with it?

As part of our pilot study in Turkey, we visited 10 managers to discuss these questions and then developed a quantitative survey based on the key points that emerged from these discussions, the literature review and case analysis. (Please see the methodology for details.) The survey would serve as a tool to measure the inclusivity of the private sector and can be used as a standard benchmark to track results within and across different countries.

Do they know about inclusive business? — Turkish companies' knowledge and awareness of inclusive business

The overall picture shows that companies in Turkey have very low levels of engagement in inclusive business models and activities, though their perception of the private sector's role in development is at a moderate level. The level of awareness is greater in large companies than in SMEs in the sense that large companies know that inclusive business models can bring financial gains and competitive advantage.

“The private sector should begin considering responsibility not as a gift they give in addition to their business, but as a part of their business strategy. Of course this will not happen in a single day. The big picture is obvious, but there are a few people who can actually see it. Many people only care about saving today, not thinking about what would happen tomorrow. Therefore, the private sector should put this corporate social responsibility away and change its business strategy. It is not easy, but necessary I believe. The private sector should embrace it more than the public sector.”

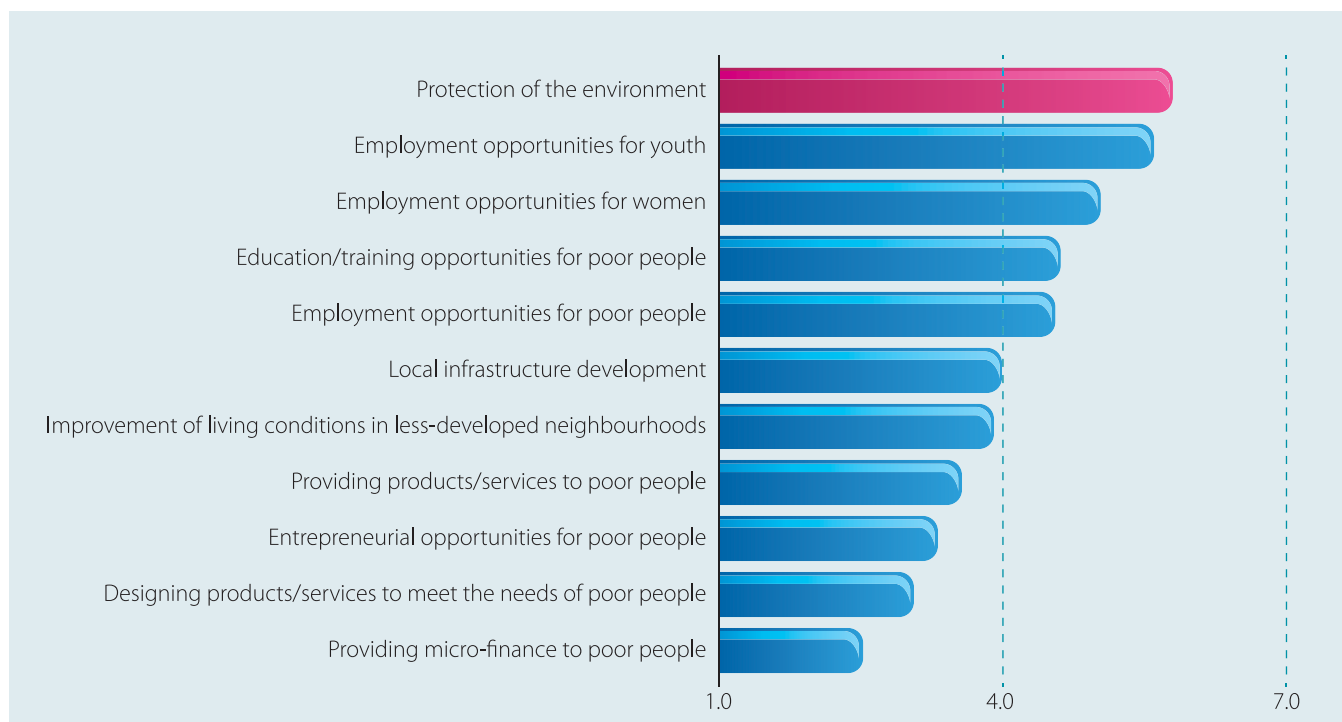
General Manager of a foundation established by a multinational corporation from Turkey

While most companies do not engage in inclusive business, they think that other companies in their industry or in their supply chains include poor people in their business models. Indeed, they think that these business models are successful. Yet this knowledge does not seem to prompt them to engage in inclusive business themselves. At this point, participants' perceptions about how applicable inclusive business is in their sector plays a role, because they reveal that inclusive business models may not be applicable in their sector.



"DOES THE BOSS KNOW?"

Figure 12. Development goals for the private sector's involvement in inclusive business



How do they engage in inclusive business? — An analysis of Turkish companies' inclusiveness

Inclusive business models are seen as more profitable and promising than CSR in the long term. Some participants even think that inclusive business is the way forward for the private sector. But how exactly do they include poor people today?

In general, the entry points of the BOP in Turkey vary from business to business. While multinationals and large companies mostly focus on poor people as consumers and employees, SMEs consider them also as suppliers and entrepreneurs.

The survey provided the companies with a set of choices (see below) to show to what extent they include poor people in their core business and their strategy. Among the different entry points of the BOP (different dimensions of inclusivity), employing poor people scored highest, followed by doing business with them in the distribution channel (as carriers, retailers etc.), targeting them as customers/consumers and investing in less-developed neighbourhoods.



Table 3. Inclusiveness of Turkish businesses

Indicator of inclusiveness	Mean scores for inclusiveness*	Mean scores for international inclusiveness*
Employing poor people	3.99	4.17
Targeting poor people as customers/consumers	2.98	3.36
Doing business with poor people as suppliers (e.g. buying products and/or services from BOP producers)	2.78	3.06
Considering poor people as entrepreneurs in the company's business model	2.26	2.44
Doing business with poor people in the distribution channel (as carriers, retailers etc.)	3.21	3.67
Investing in less-developed neighbourhoods	2.93	3.42
Emphasizing poor people in the company's mission statement	2.19	2.56
Emphasizing poor people in the company's business strategy	2.18	2.58
Average inclusiveness score	2.80	3.15

* Note: Mean score out of 7.

Companies which have international operations scored higher on international inclusiveness than their level of inclusiveness in Turkey. Mean scores for each category of inclusiveness (employing poor people, targeting them as consumers etc.) are higher in international operations than in operations in Turkey.

Interestingly, companies are relatively more inclusive when the definition of inclusiveness also includes other groups such as women, people with disabilities etc. But they do not invest heavily in developing the skills and knowledge of poor people. The highest level of contribution is in investing in developing the skills and knowledge of poor people as employees, followed by the local community.

Innovative capacity is very important for companies which adopt inclusive business models or activities in Turkey. They think this also leads to higher efficiency and, consequently, better financial returns. Innovation and entrepreneurship are among the main drivers of inclusive business models.

There is almost no cooperation between inclusive businesses in Turkey and NGOs or governmental institutions. Establishing partnerships with public institutions is seen as essential for adopting an inclusive business perspective. A majority of the participants, and particularly SMEs, mention the importance of building an ecosystem between the company, poor people and financial institutions. They think that these ecosystems can help them to scale up their businesses and reach the mass market with competitive prices.



"DOES THE BOSS KNOW?"

How to raise the level of Turkish companies' awareness of and engagement with inclusive business — Future implications for stakeholders

For companies

Put inclusiveness at the centre from the very outset, and reflect this as a priority in every stage of the value chain. Managers state the importance of developing business models and producing products with an inclusive mindset from the start. Some participants also reveal that there should be a holistic perspective in terms of doing good in every process of the value chain. A company's current level of inclusiveness is highly related with having a future inclusiveness strategy. This shows that companies which already have inclusive business models or activities are considering continuing their activities in the future, which contributes to the sustainability of inclusive business. This also implies that companies are satisfied with the business and/or social outcomes of their inclusive business models and activities.

Commitment from senior management is essential. Some managers place special emphasis on the participation of internal stakeholders in all corporate responsibility and inclusive business practices.

Invest in and include the BOP in the value chain, and measure and communicate the impact. The effectiveness of inclusiveness in reaching certain business and social goals was assessed for different ways of incorporating poor people into the business model (as employees, consumers, entrepreneurs, distributors etc.). The results showed that:

Accessing the new markets is a significant opportunity that inclusive business models provide us. In addition to this, the companies which invest in the development of the regions they operate in and their value chains (our group is one of them) can improve skills in their entire network with the help of inclusive business models. Inclusive business models both extend the skills pool and improve the quality of company products and services, especially in the supply network.

Top executive of one of the largest groups of companies in Turkey

- ♦ investing in less-developed neighbourhoods is the most effective way of successfully doing inclusive business, followed by incorporating poor people into the business model as employees, consumers, suppliers, entrepreneurs and distribution channel members; and
- ♦ companies generally do not measure the business and social impact of inclusive business and do not communicate the outcomes.

Be innovative, especially when cooperating. Companies had low scores on business model innovativeness (i.e. finding new ways to generate revenues and define value propositions for customers, suppliers and partners). In particular, the lowest score in this regard emerged as innovation in forming new forms of partnerships with other industry actors to do business with the BOP. Since collaboration is a major factor for the success of inclusive business, this low score is a sign of the need to develop an enabling environment for companies to form partnerships with actors from different industries and non-business stakeholders.

Make long-term projections for returns when targeting the BOP. A short-term profit orientation may lead to an underestimation of the future business and social impact of inclusive business initiatives, as these efforts require a long-term perspective to reach scale.



For governments

Take an active role. Managers want the government to take an active collaborative role in inclusive business models. They criticize the perspectives of development actors and government, as the private sector is seen only as a financial contributor in development efforts. They also reveal that they expect the government to introduce practices and regulations that could support and ease the implementation of inclusive businesses.

Promote transparency and accountability. Some participants emphasized the importance of the public in promoting transparency and accountability. Increased transparency and reporting practices prompt other companies to adopt a similar approach, which creates a domino effect.

Support innovation and entrepreneurship. Our survey revealed that entrepreneurial proclivity can increase the level of engagement of companies in development efforts as well as the level of inclusiveness in their future operations. Consequently, supporting innovation and entrepreneurship emerges as an important way for policymakers to increase the private sector's role in development. Innovative business models enable companies to be more effective in reaching their intended goals by employing and targeting poor people, working with them as suppliers and entrepreneurs and investing in less-developed neighbourhoods.

Encourage the private sector to invest in human capital through inclusive businesses. Inclusive business enables the private sector to invest in human capital. Inclusive companies contribute more to developing the skills of poor people and include other disadvantaged groups in their operations.

Create external financing facilities. Companies which consider poor people as entrepreneurs in their business models state that the main contextual factor which affects their operations is opportunities to provide external financing. Consequently, support from financial institutions through micro-credits and other financial services is needed to support companies' efforts to incorporate poor people into their business model as entrepreneurs.

Develop certification for inclusive value chains. It is important that the driver companies of the value chain in an industry engage in inclusive business models or activities. Certification systems are an important motivator: once driver companies achieve certification, other companies follow suit, creating a domino effect.

For everyone — Collaborative efforts

Inclusive business models and activities were supported mostly by consumers, members of the supply chain and the local community, while respondents consider research centres, financial institutions and universities as providing them with the lowest levels of support. These scores are highly important in the sense that **inclusive business requires high levels of collaboration** between different development actors for greater social impact and the sustainability of these business models.

Companies were asked to what extent they intend to apply the above-mentioned strategies to incorporate the BOP in their business model in the next five years. The results revealed that they are not considering becoming more inclusive in the future. This clearly shows the need to **support inclusive business practices through joint efforts by related parties, including the government, development agents, universities and NGOs.**



"DOES THE BOSS KNOW?"

Collaboration is a must to ensure success. A majority of the managers emphasize the importance of cooperatives in the successful application of inclusive business models. The managers of industrial zones and chambers of commerce are seen as important collaboration partners who support inclusive business models.

Table 4. Levels of cooperation in Turkish inclusive businesses

Who supported you most when	Top management	Employees	Customers	Supply chain members	Municipalities	Governmental institutions	Professional organizations	Development actors	Peers in the industry	Companies from other industries	NGOs	Local community	Financial institutions	Universities	Research centres
Employing poor people					✓		✓						✓		
Targeting poor people										✓	✓		✓		
Doing business with poor people as suppliers										✓			✓	✓	
Doing business with poor people in the distribution channel					✓							✓	✓		
Considering poor people as entrepreneurs				✓	✓		✓								
Investing in less-developed neighbourhoods					✓		✓						✓		



Where do Turkish companies see the solution?

In contextual factors

Levels of education, knowledge and awareness in low-income markets, infrastructure, the regulatory environment and bureaucracy were seen as the most significant challenges to overcome. On the other hand, the costs of doing business with the BOP, the perspective of senior management and the company's corporate culture were seen as driving success. The costs of doing business with the BOP might be considered a contributing factor, since poor people mostly take on the role of employees or consumers in the business model.

In regulations

While government incentives and labour market regulations were considered slightly positive, quality management standards, intellectual property rights and obtaining the required licences and permits to carry out inclusive business were considered challenges.

In policies to support inclusive business

Participants rated the existence of a national strategy on inclusive business models, the development of collaborations between businesses, financial institutions, policymakers and NGOs and a nationwide awareness-raising campaign on inclusive business models as policies which can contribute most to raising awareness and the adoption of inclusive business models.

In collaboration

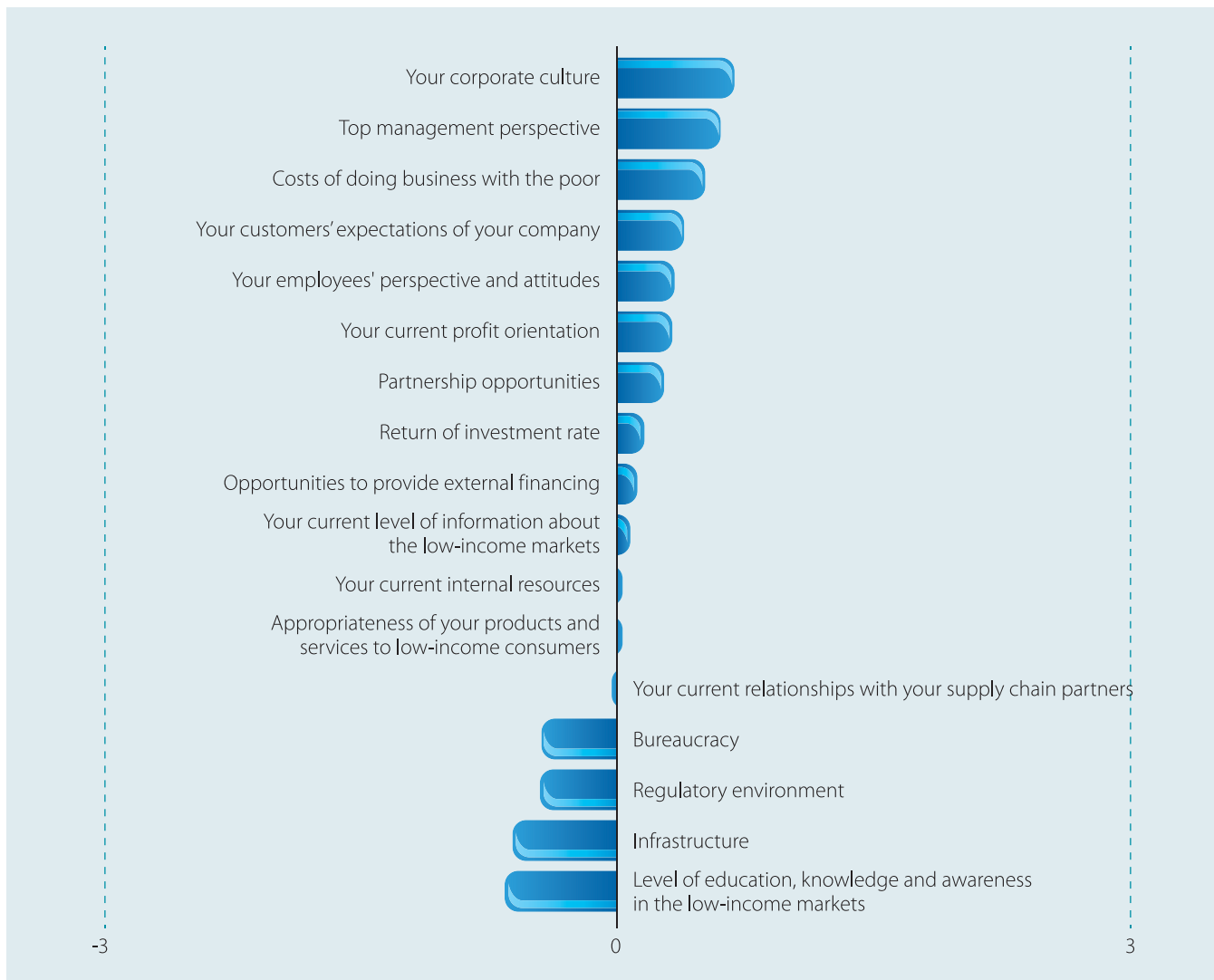
Companies evaluated their inclusive business as being more effective when they received higher levels of support from:

- ◆ professional organizations, municipalities and financial institutions for companies employing poor people;
- ◆ financial institutions, NGOs and companies from other industries for companies targeting poor people (the appropriateness of the company's products and services to low-income consumers emerges as a main contextual factor influencing this effectiveness);
- ◆ financial institutions, companies from other industries and universities for companies working with poor people as suppliers;
- ◆ the local community, financial institutions and municipalities for companies working with poor people as distribution channel members; and
- ◆ municipalities, professional organizations and supply chain members for companies working with poor people as entrepreneurs in their business models (costs of doing business with the BOP, current relationships with supply chain partners and infrastructure emerge as the main contextual factors which positively or negatively affect this effectiveness).



"DOES THE BOSS KNOW?"

Figure 13. "How do these different factors affect your inclusive business?"









Chapter III

POLICY IMPLICATIONS AND CONCLUSIONS: WHAT NEXT?

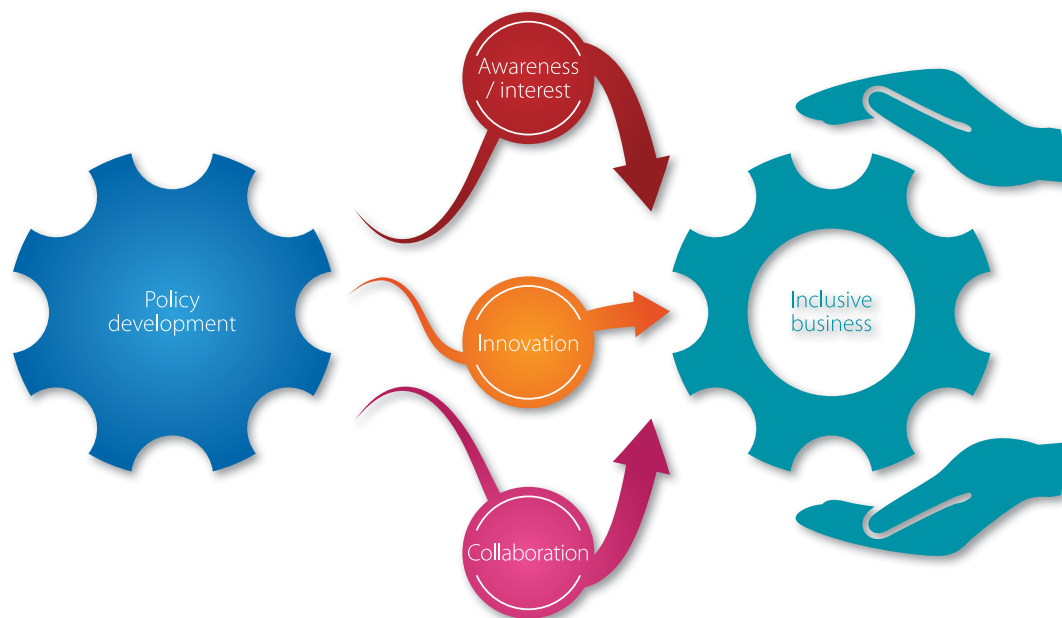
- ♦ Managers' current low levels of interest in inclusive business would increase if they had a better understanding of how inclusive business approaches might help them grow their business.
- ♦ We recommend the development of national strategies on inclusive business, nationwide awareness-raising campaigns (particularly targeting SMEs and entrepreneurs) and social performance indicators for companies to increase awareness and generate interest and engagement.





Based on the literature review, case analysis and pilot study in Turkey, we propose three broad categories in which policy development is essential. The first one concerns the current level of awareness/interest in inclusive business approaches. The other two categories are arguably the two most essential aspects in developing inclusive business models: innovation and collaboration. Innovation and collaboration are necessary both for the establishment of inclusive business models and for scaling up. We discuss policy implications in these three categories in relation to company/sector characteristics and local context and stakeholders.

Figure 14. Policy development required to drive inclusive business



On level of awareness/interest

As underlined earlier, our research suggests that managers have a quite low level of awareness of and interest in inclusive business. Interestingly, they are very concerned with addressing environmental issues as part of development efforts; yet they report lower levels of engagement in poverty reduction through business approaches. There may be several reasons as to why companies are now embracing environmental issues as part of their corporate strategy. Stakeholders (e.g. consumers, NGOs, governments) expect higher environmental performance from companies due to higher levels of awareness about environmental issues such as diminishing natural resources and climate change. Importantly, managers now realize that it is possible to be profitable and sustainable if they also create environmentally sensitive business processes.

Managers' interest in inclusive business would increase if they had a better understanding of how inclusive business approaches might help them grow their business. In addition, the engagement of major driver companies in an industry in inclusive business is important to trigger interest. However, companies' evaluations of the applicability of inclusive business in their sectors reveal that they have low levels of awareness about the very innovative applications of inclusive business in different sectors. Consequently, increasing managers' awareness of successful inclusive business models in their sectors could be the first step to encourage the adoption of inclusive business models and activities.



POLICY IMPLICATIONS AND CONCLUSIONS: WHAT NEXT?

In a similar vein, our research found that even companies that actually carried out inclusive business practices did not necessarily see them as inclusive business but embraced them intuitively. This shows that some private-sector actors sense the merits of an inclusive business approach, and hints at the existence of an environment for it to flourish organically. However, the recommendations below will inevitably accelerate this process.



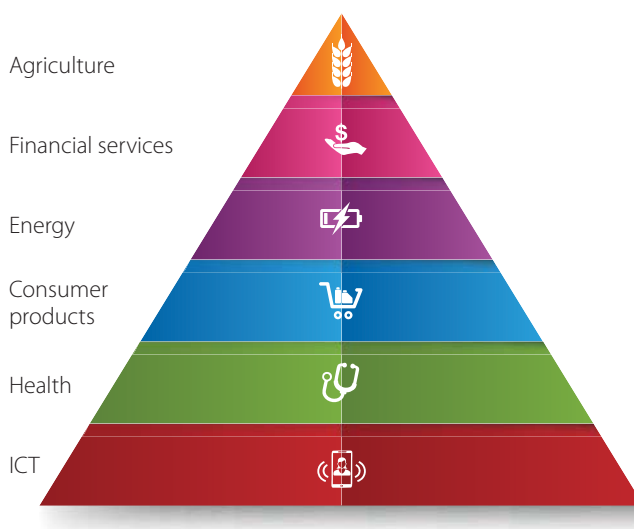
Based on our findings, we recommend the development of:

- ◆ national strategies on inclusive business;
- ◆ nationwide awareness-raising campaigns; and
- ◆ social performance indicators for companies to increase awareness and generate interest and engagement.

SMEs seem to play a vital role in the development of inclusive business approaches. Our research indicates that a sizeable proportion of successful inclusive business approaches are developed by SMEs. This finding is also echoed in the literature (e.g. Abraham, 2012), pointing to a link between SMEs and their ability to adapt to the local context better than larger multinational corporations. Furthermore, our findings also highlight the importance of developing business models and producing products with an inclusive mindset from the outset. Consequently, we suggest that **SMEs and entrepreneurs could be the primary targets for policymakers during the process of a nationwide strategy development and awareness-raising campaign.**

The majority of existing successful inclusive business cases are in agriculture, financial services and the energy sector. We recommend that **these sectors could be targeted initially in countries where inclusive business models are not common.** Further research is required to understand whether inclusive business models and

practices developed in these sectors can be adapted to other sectors where they are less prevalent. Furthermore, companies which engage in inclusive business generally consider it an effective way of reaching their business and social goals. However, there is still very little measurement, reporting and communication of the business and social impact of these models. Creating awareness about the importance of measuring and communicating the outcomes may contribute both to the sustainability of the existing initiatives and encourage other companies to engage in inclusive business.



A national awareness-raising campaign is likely to influence not only companies but also their



stakeholders. The literature points to a strong link between stakeholder expectations and companies' level of involvement in development. While there may be differences among the characteristics, priorities and power of different stakeholder groups, having a stakeholder-driven approach, incorporating stakeholders' expectations in the strategies, measuring stakeholder reactions and using this information as an input in future decision-making (Epstein and Widener, 2011) establish the foundation for inclusive business.

On innovation

Fostering an innovative environment and an entrepreneurial spirit in companies in general can also increase the use of inclusive business approaches. More innovative firms tend to adopt inclusive business approaches. Companies with a great entrepreneurial spirit also perceive themselves as contributing to development goals across different domains.

Innovativeness emerges as an important factor to ensure the shift from considering poor people only as consumers to incorporating them into the value chain through operations and different entry points. With the current orientation, poor people are predominantly positioned as consumers. However, to ensure sustainability and effectiveness in reaching intended business and social goals, **we need innovative business models which assign different, long-term and sustainable roles to poor people in the value chain.**

We also found that **companies with innovative supply chain practices (from procurement and production to distribution) are more likely to be effective in reaching their business goals with inclusive business approaches.** These insights add to previous research focusing on innovation in BOP markets.

Our data do not reveal any relationship between CSR practices and the extent to which companies adopt inclusive business approaches. On the other hand, CSR practices may still be helpful to the extent that they also increase companies' capacity for innovation (Husted and Allen, 2007; Ramani and Mukherjee, 2014; Wagner, 2010), and innovation fuels inclusiveness. We recommend that **a national strategy on inclusive business should incorporate a strong focus on fostering innovation.** For example, there is a link between environmental regulations and increased competitiveness when regulations have a focus on innovation (Costantini and Mazzanti, 2012; Fujii and Managi, 2012). Similarly, we recommend policy development with a focus on innovation in the context of inclusive business.

On collaboration

As underlined before, our research suggests that most successful inclusive businesses operate following a network approach. Companies that stated they received support from several different stakeholders said they achieved their business goals through the inclusion of poor people. These results demonstrate the importance of **developing an innovative business model based on collaborations with related parties to successfully incorporate poor people into the core business of the company.** Innovativeness and partnerships, which emerge as the second and third most critical success factors for successful inclusive businesses, are the basis on which these business models should be built.

Operational partnerships to address challenges seem critical for the growth of successful inclusive businesses. The main challenges faced by local SMEs, multinational corporations and large national companies



POLICY IMPLICATIONS AND CONCLUSIONS: WHAT NEXT?

relate to the local community, followed by financial challenges. For social enterprises, financial challenges again emerge as the main challenge. Collaborations with financial institutions are, therefore, required for inclusive businesses to overcome financial barriers. Challenges relating to local communities should also be overcome through operational partnerships with appropriate institutions.

Extant research also points to the importance of collaboration, particularly in BOP markets. Partnerships help companies adapt to the specific dynamics of the subsistence marketplace, and partners from multiple sectors may help to address the problem of institutional gaps in these markets (Rivera-Santos, Rufin and Kolk, 2012). Furthermore, partnerships with NGOs can help to eliminate the problems multinational corporations face in their entrepreneurial attempts in BOP markets, thanks to NGOs' knowledge of the context and their social embeddedness (Webb et al., 2010). Partnership with the government is specifically important for BOP markets, mainly due to the scope of the problems and capacity gaps. Furthermore, the regulatory environment and bureaucracy were considered among the most significant impeding factors for companies to engage in inclusive business, which reflects the importance of government in providing a supportive legal environment for inclusive business. Conventional roles attributed to government — as regulator — and to companies — as investors — are not enough to leverage inclusive business. Collaboration and joint action between these two should be introduced. **Further research into perceptions that constitute a barrier to collaboration between government and the private sector would be beneficial.**

Collaboration in BOP markets

Literature recommends that endemic poverty at the BOP can be tackled through partnerships between government, social institutions and entrepreneurial forces, despite their conflicting interests (VanSandt and Sud, 2012). It calls for attention to the importance of collaboration between for-profit and not-for-profit organizations and also with their customers and all stakeholders to achieve both economic and social goals in BOP markets (Blok, Sjaauw-Koen-Fa and Omta, 2013). Partnerships between local entrepreneurs and development partners such as civil society groups, the government and corporations may suggest an opportunity to create a fortune **with** the BOP rather than **at** the BOP (Calton et al., 2013). For example, partnerships between the government and social health insurance organizations are required particularly in the health care area to reach the BOP at scale (Tung and Benett, 2014). Trust-based partnerships among poor populations, NGOs and multinational corporations can be used to create markets for the BOP (Shivarajan and Srinivasan, 2013).

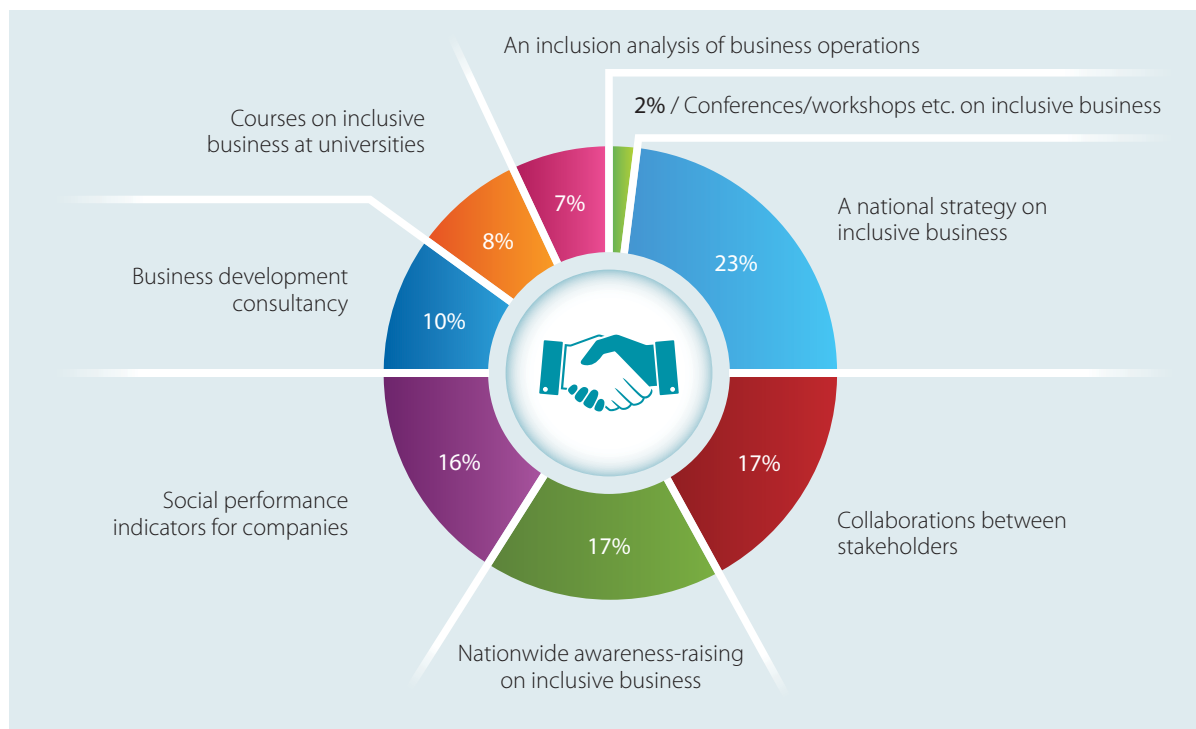
Successful operation in BOP markets requires a thorough understanding of local needs and the customers (Rangan et al., 2011; Weidner, Rosa and Viswanathan, 2010; Calton et al., 2013; Sharma and Lee, 2012), how local capabilities interact with the social context and technological applications (Dey et al., 2013), local adaptation in designing products (Viswanathan and Sridharan, 2011) and the support of government regulations and trained staff who can make system adjustments (Berger and Nakata, 2013). Subsistence consumers also operate as micro-enterprises, balancing and maintaining different roles and relationships in the marketplace (Viswanathan et al., 2010).



Municipalities, financial institutions and professional organizations emerge as the most important stakeholders whose support matter most in enabling inclusive business models to achieve their intended goals. Support from other parties, including companies from other industries, supply chain partners, the local community, NGOs and universities, is also required in models with different entry points of the BOP. Consequently, rather than a prescriptive approach, **the situational characteristics should be taken into consideration to support different inclusive business models with different entry points of the BOP.**

Our research also reveals criticisms of development actors and academia for their focus on research and modelling. Instead, managers suggest these parties should focus on creating and supporting real-life projects; not on workshops and seminars.

Figure 15. “Which would be helpful for your organization to include poor people?”



Universities in general and business schools in particular can influence managerial practice by better integrating relevant courses on business and development into their curricula and emphasizing **collaborative growth**. This could be achieved through institutional collaboration (Naeem and Peach, 2011) as well as the active involvement of accreditation bodies. In particular, immersion experience as part of a curriculum could be useful both to create knowledge and to increase the sensitivity of future managers (Viswanathan et al., 2011). We believe that inspiring future managers through curricula and by introducing a lens through which their perspectives on pressing social and economic problems are continuously filtered is necessary for inclusive business to successfully take root in a country. We also think that **inclusive business centres that offer consultancy services could be established** for those who would like to apply their inspiration on the ground, whether they are young managers, students or entrepreneurs.



Appendix

An abstract graphic featuring a dark teal background. On the right side, there is a dynamic, flowing pattern of numerous thin, overlapping lines in various colors including blue, green, yellow, orange, red, pink, and purple. These lines curve and swirl, creating a sense of motion and energy. The overall composition is modern and artistic.



APPENDIX I

Case analysis framework

Success factors

The most important success factor was selected based on the subjective evaluation of the coder:

pull factor (high demand for the product or service), partnerships, business model, local support, state support, innovativeness, availability of funds, entrepreneurial skills, low cost structure

Type of engagement for inclusive business

Inclusive business model vs. inclusive business activity vs. social enterprise

Inclusive business model: integrates the inclusive mindset into a company's core business and operations; adapts its system totally

Inclusive business activity: inclusive business is seen as an ancillary activity

Social enterprises: carry out inclusive business for non-profit purposes, yet they have it integrated into their core operations

Type of organization

Classification of companies by the location of the company and the number of staff employed: large national company, local SME, multinational corporation or social enterprise

Sustainability (Yes/No)

Whether the business is still operating or not

Number of years of operations (numeric)

How long the inclusive business models have been in operation

Value chain operations

Inbound logistics, operations, outbound logistics, marketing and sales, services, purchasing, human resources management, technology, infrastructure

Role of poor populations

The entry point of poor populations: as consumer, producer, employee, labour or entrepreneur



Strategy (resource-based view vs. network theory)

The resource-based view lies primarily in the application of a bundle of valuable tangible or intangible resources at a firm's disposal. To transform a short-term competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (inimitable).

If the company has a resource-based strategy, we may say that it has identified its key resources, which are valuable, rare, inimitable and non-substitutable, so that it can protect these resources and ensure sustainable competitive advantage.

In the network theory approach the source of competitive advantage is the network of relationships, with the idea that the firms with best/optimal relationship portfolios will survive.

Factors for growth

Factors that help inclusive business models grow. The most important factor was selected based on the subjective evaluation of the coder:

business model adjustments (where the success factor is the change in the business model), business environment (success factor is the supporting business environment), operational partnerships (success factor is the strength and impact of the partnerships), market or supplier development (success factor is the new market opportunities, and extending the supplier networks through new suppliers) and funding partnerships (success factor is the availability of funds created through partnerships)

Innovativeness

Whether the companies serve poor populations through innovative products/services, with modified versions of the existing products/services or simply with existing products/services

Value proposition

Newness (innovative solutions), performance (improving the performance of an existing product or service), customization (adapting the product/service according to customers' needs), design (serving the customer with a distinctive design of products/services), price (low price or fair price for improved performance), risk reduction (help in reducing the possible risks related to the lives of people on low incomes — such as health), accessibility (helping poor people to have access to goods/services) and convenience/usability (making products and services easy to use)

Challenges

The most important challenge was selected based on the subjective evaluation of the coder:

poor infrastructure, political, regulatory or economic uncertainties, corruption, financial challenges, lack of partnership opportunities, lack of governmental support, lack of institutional support (from NGOs, local managers etc.), challenges related to the local community (illiteracy, hostility, low skills etc.)



Analysis on years of operation

Results of independent samples Kruskal-Wallis test

Group	Sig. *
Type of organization	0.142
Sector	0.396
Region	0.124
Structure	0.033
Value chain operations	0.163
Innovativeness	0.095
Type of inclusive business	0.048
Role of the poor population	0.056
Role of the company	0.006
Approach	0.037
Factors for growth	0.139
Value proposition	0.284
Challenges	0.006
Critical success factors	0.234

* The significance level is 0.05.

Years of operation – Group: Structure (private initiatives, project-based alliances, platforms)

The Kruskal-Wallis test showed a statistically significant difference in years of operation between the different inclusive business structures: $\chi^2 (3, n = 125) = 8.765, p=0.033$. Private initiatives recorded a higher median score (16) than the other groups (platforms: 15, project-based alliances: 13).

Mean scores for these three groups are 18.28 for private initiatives, 17.12 for platforms and 14.19 for project-based alliances.



Years of operation

Structure	Mean	No.	Std. deviation	Minimum	Maximum	Median
,00	2.0000	1	.	2.00	2.00	2.00
Private initiative	18.2800	25	9.12195	8.00	45.00	16.00
Project-based alliance	14.1892	74	7.45705	3.00	42.00	13.00
Platform	17.1200	25	10.38155	1.00	46.00	15.00
Total	15.4960	125	8.61883	1.00	46.00	14.00

Results show that private initiatives have been established earlier than platforms and project-based alliances. Project-based alliances have the lowest score, which is in line with the literature and the findings of in-depth interviews, as private initiatives and a single-sector approach were dominant in previous decades. Partnerships, especially within industries, can be considered more recent forms of collaboration.

Years of operation – Group: Type of inclusive business (inclusive business model, inclusive business activity, social enterprise)

The Kruskal-Wallis test showed a statistically significant difference in years of operation between different types of inclusive business: $\chi^2(3, n = 125) = 7.905$; $p = 0.048$. Social enterprises recorded a higher median score (14.5) than the other groups (inclusive business model: 14, inclusive business activity: 11).

Mean scores for these three groups are 17.60 for social enterprises, 15.90 for inclusive business models and 12.27 for inclusive business activities.

Years of operation

Type of inclusive business	Mean	No.	Std. deviation	Minimum	Maximum	Median
,00	2.0000	2	1.41421	1.00	3.00	2.00
Inclusive business model	15.9020	102	8.35299	2.00	46.00	14.00
Inclusive business activity	12.2727	11	6.19824	4.00	26.00	11.00
Social enterprise	17.6000	10	11.73030	6.00	45.00	14.50
Total	15.4960	125	8.61883	1.00	46.00	14.00

Results show that inclusive business activities are more recent forms of inclusive business; they might have developed thanks to the previous experiences gained through inclusive business models and social enterprises.



APPENDIX II

Years of operation – Group: Role of the company (enabler, system innovator)

The Kruskal-Wallis test showed a significant difference in years of operation between different roles played by the company: $\chi^2(2, n = 125) = 10.375$; $p = 0.006$. The role of system innovator recorded a higher median score (14.5) than the role of enabler (14).

Mean scores for these two groups are 17.10 for system innovator and 14.70 for enabler.

Years of operation

Role of the company	Mean	No.	Std. deviation	Minimum	Maximum	Median
,00	4.7500	4	3.09570	2.00	9.00	4.00
Enabler	14.6984	63	7.42627	1.00	40.00	14.00
System innovator	17.1034	58	9.46960	6.00	46.00	14.50
Total	15.4960	125	8.61883	1.00	46.00	14.00

The role of system innovator adopts a more holistic perspective than the role of enabler and aims to create systemic change. Once this systemic change is achieved, it is possible that the other companies with enabler roles can also operate in this new ecosystem, since it may also provide them with a favourable business environment.

Years of operation – Group: Approach (resource-based view, network theory)

The Mann-Whitney U-test showed a significant difference in years of operation between different strategic approaches: ($U = 1080$, $p = 0.037$). The mean years of operation is significantly higher in a resource-based approach (17.48) than a network theory approach (14.98).

Years of operation

Approach	Mean	No.	Std. deviation	Minimum	Maximum	Median
Resource-based view	17.4839	31	8.05345	8.00	45.00	16.00
Network theory	14.9785	93	8.68279	1.00	46.00	13.00
Total	15.6048	124	8.56711	1.00	46.00	14.00



These findings are particularly important for policy implications. The network theory approach requires the development of partnerships to create a network of relationships which will serve as the source of competitive advantage. In this case, the accumulated effect created through the resources and capabilities of the whole network will be higher. As the data show, the network theory approach has started to be adopted recently, which may foster the business and social impact of inclusive businesses.

Years of operation – Challenges

The Kruskal-Wallis test showed a marginally significant difference in years of operation between different types of challenges which might be faced before, during or after the implementation of the inclusive business:

$\chi^2(7, n = 125) = 19.658$; $p=0.006$. Companies which faced a lack of institutional support have the lowest median score (8.00), followed by those faced with a lack of partnership opportunities (13.00), challenges related to the local community (13.72) and financial challenges (15.86).

On the other hand, the mean scores are ranked as follows: lack of institutional support: 8.00; lack of partnership opportunities: 13.00; challenges related to the local community: 13.72; financial challenges: 15.86; uncertainties: 19.92; lack of governmental support: 20.50; and poor infrastructure: 22.55.

Challenges	Mean	No.	Std. deviation	Minimum	Maximum	Median
,00	13.0303	33	9.37245	1.00	39.00	10.00
Poor infrastructure	22.5455	11	10.54859	9.00	42.00	18.00
Political, regulatory or economic uncertainties	19.9231	13	11.33918	9.00	46.00	16.00
Financial challenges	15.8571	28	5.65498	7.00	32.00	15.50
Lack of partnership opportunities	13.0000	1	.	13.00	13.00	13.00
Lack of governmental support	20.5000	2	10.60660	13.00	28.00	20.50
Lack of institutional support	8.0000	1	.	8.00	8.00	8.00
Challenges related to the local community	13.7222	36	6.62726	4.00	45.00	13.00
Total	15.4960	125	8.61883	1.00	46.00	14.00

According to these results, companies which were established more recently face challenges related to a lack of institutional support and partnership opportunities. This finding leads us to the policy implication that new inclusive businesses need support and opportunities for partnership development with NGOs, institutions from the private and public sectors and other development actors.



APPENDIX III

Figure 1. Major challenges according to type of organization

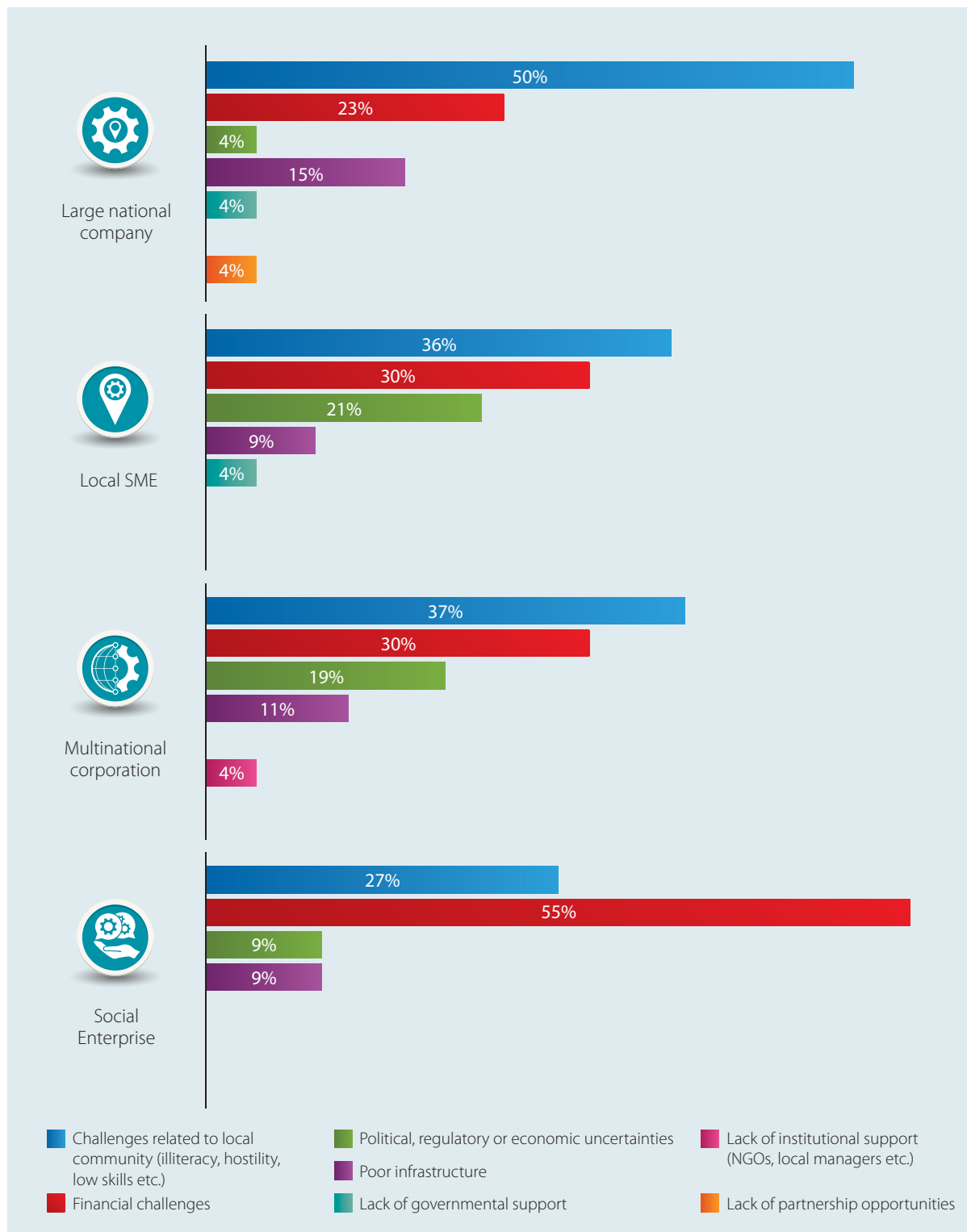
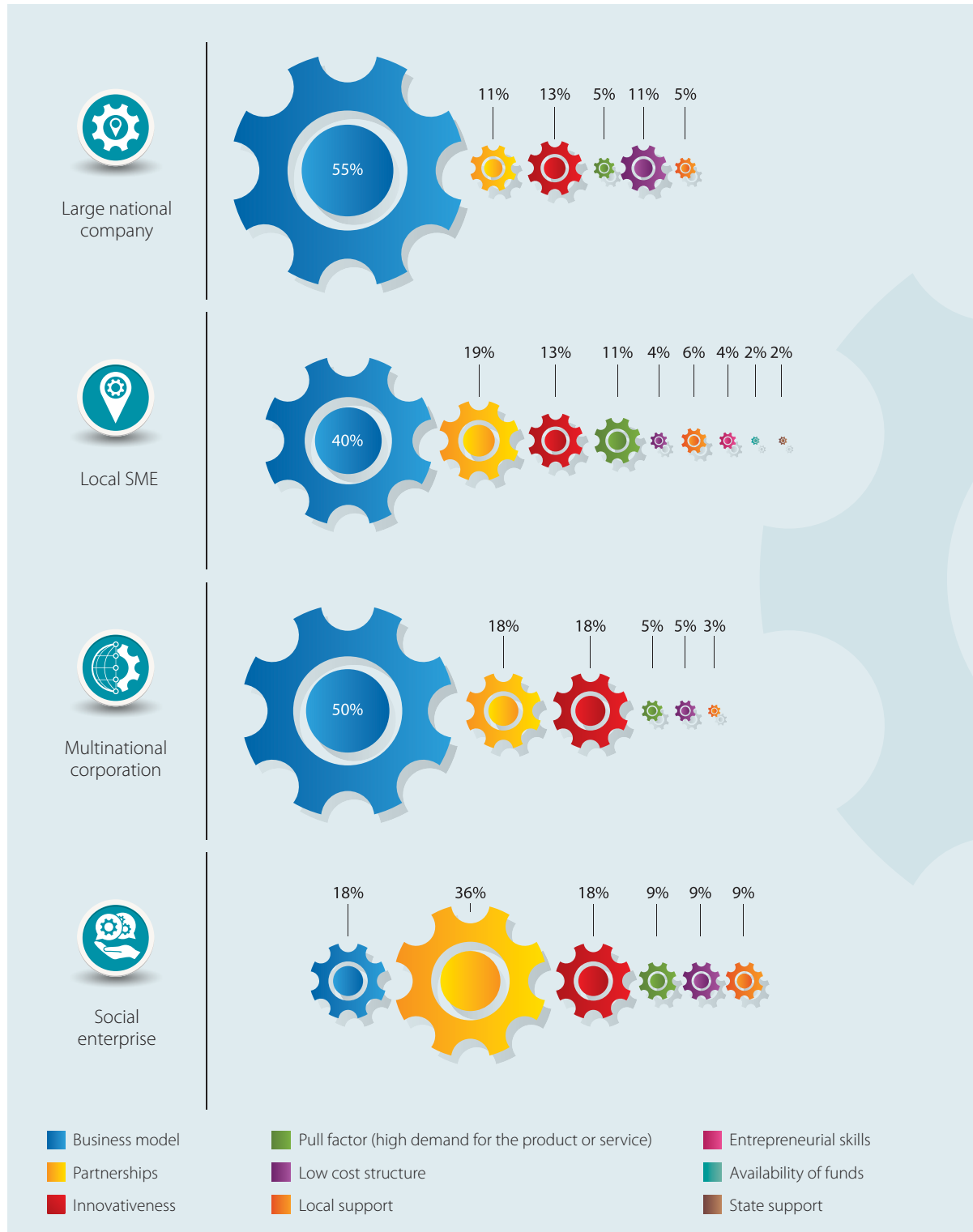




Figure 2. Critical success factors for different types of organization







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